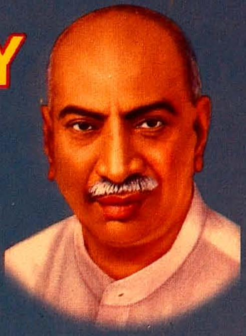
MADURAI KAMARAJ UNIVERSITY

(University with Potential for Excellence)



DISTANCE EDUCATION

M.B.A.

SECOND YEAR

IV SEMESTER
ELECTIVE I - MARKETING

PRODUCT MANAGEMENT

Recognised by DEC
www.mkudde.org

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SYLLABUS

Business objectives and product planning, Demand and product planning – Product life cycle – Different stages of Marketing mixes during LC.

Developing product plans – Product policy – Product positioning – Branding – Packaging -- Related planning to other elements of the marketing mix, Physical distribution and promotion.

Product modification – Product elimination Product appraisal systems.

New Product management – Nature and importance of of organizing for new product planning and developments. The product planning and development process – Explorations - Search for new product ideas – Business analysis, product development, Product testing – Market testing – Commercialisation – Follow up requirements – Effective management of new product planning and development.

CONTENTS

UNIT - 1
INTRODUCTION TO PRODUCT MANAGEMENT 1

UNIT - 2
BUSINESS PLAN AND PRODUCT PORTFOLIO 10

UNIT - 3
PRODUCT LIFE CYCLE 21

UNIT - 4
NEW PRODUCT DEVELOPMENT 31

UNIT - 5
PRODUCT PRICING 46

UNIT - 6
PRODUCT DIFFERENTIATION AND POSITIONING 57

UNIT - 7
BRAND MANAGEMENT 65

UNIT – 8
BRAND EQUITY 78

UNIT – 9
PACKAGING & LABELLING 95

UNIT – 10
DISTRIBUTION CHANNEL MANAGEMENT 114

UNIT I

INTRODUCTION TO PRODUCT MANAGEMENT

UNIT STRUCTURE

1.1 Introduction

1.2 Unit objectives

1.3 Product management

1.4 Product

1.5 Product levels

1.6 Product classification

1.7 Product mix

1.8 Product line decisions

1.9 Product line analysis

1.10 Line featuring and line pruning

1.11 Product management or brand management organisation

1.12 Tasks performed by product managers

1.13 Advantages of product management

1.14 Disadvantages of product management

1.15 Five steps to make product management system work better

1.16 Summary

1.17 Answer to check your progress questions

1.18 Exercises and questions

1.19 Further readings

1.1 INTRODUCTION

Product management covers a wide range of activities related to the planning and management of a product. It is a part of marketing which concerns about managing existing product lines, managing product through various phases in its life cycle, developing and launching new products and managing brand family

One bank one family is the tagline of bank of maharastra

Notes

1.2 UNIT OBJECTIVES

1. To understand the meaning of product
2. To learn the various types of products
3. To understand the levels of a product
4. To learn the advantages and disadvantages of product management organisation

1.3 PRODUCT MANAGEMENT

What is Product?

Check your progress
1. What do you mean by CORE BENEFIT ?

Pair of Bata Shoes, a Hero Honda Bike, a Maxx mobile telephone, an advice from a management consultant and Sales tax returns preparation services are all products. Product can be defined "as anything that is offered to a market for attention, acquisition, use or consumption and that might satisfy a want or need. Products include more than just tangible goods". So, products include physical objects, services, persons, places, organizations, ideas or mixes of these entities.

1.4 PRODUCT

A product is anything that can be offered to a market to satisfy a want or need. Products include physical goods, services, experiences, events, persons, places, properties, organizations, information, and ideas. The customer will judge the offering by three basic elements: product features and quality, services mix and quality, and price appropriateness. As a result, marketers must carefully think through the level at which they set each product's features, benefits, and quality.

1.5 PRODUCT LEVELS

Marketers plan their market offering at five levels. Each level adds more customer value, and together the five levels constitute a customer value hierarchy. The most fundamental level is the core benefit: the fundamental service or benefit that the customer is really buying. A hotel guest is buying "rest and sleep"; the purchaser of a drill is buying "holes." Effective marketers therefore see themselves as providers of product benefits, not merely product features.

At the second level, the marketer has to turn the core benefit into a basic product. Thus, a hotel room includes a bed, bathroom, towels, and closet. At the third level, the marketer prepares an expected product, a set of attributes and conditions that buyers normally expect when they buy the product. Hotel guests expect a clean bed, fresh towels, and so on. Because most hotels can meet this minimum expectation, the traveler normally will settle for whichever hotel is most convenient or least expensive.

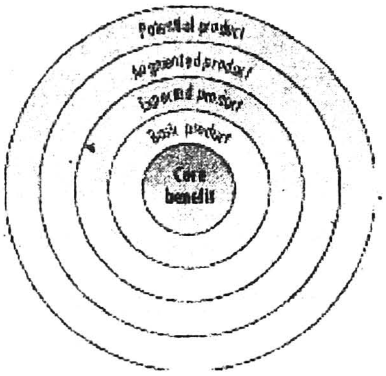
At the fourth level, the marketer prepares an augmented pro duct that exceeds customer expectations. A hotel might include a remote-control television set, fresh flowers, and express check-in and checkout. Today's competition essentially takes place at the product-augmentation level. (In less developed countries, competition

takes place mostly at the expected product level.) Product augmentation leads the marketer to look at the user's total consumption system: the way the user performs the tasks of getting, using, fixing, and disposing of the product.

However, product augmentation adds cost, so the marketer must determine whether customers will pay enough to cover the extra cost (of remote-control television in a hotel room, for example). Moreover, augmented benefits soon become expected benefits, which means that competitors have to search for still other features and benefits. And as companies raise the price of their augmented product, some competitors can offer a "stripped-down" version of the product at a much lower price. Thus, the hotel industry has seen the growth of fine hotels offering augmented products as well as lower-cost lodgings offering basic products.

At the fifth level stands the potential product, which encompasses all of the possible augmentations and transformations the product might undergo in the future. Here, a company searches for entirely new ways to satisfy its customers and distinguish its offer.

Figure 1.1 Five Levels of Product



1.6 Product Classifications

In addition to understanding a product's position in the hierarchy, the marketer also must understand how to classify the product on the basis of three characteristics: dura-bility, tangibility, and consumer or industrial use. Each product classification is associ-ated with a different marketing-mix strategy.

Durability and tangibility: Nondurable goods are tangible goods that are normally consumed in one or a few uses (such as soft drink and soap). Because these goods are consumed quickly and purchased frequently, the appropriate strategy is to make them available in many locations, charge only a small markup, and advertise heavily to induce trial and build preference. Durable goods are tangible goods that normally survive many uses (such as refrigerators). These products normally require more personal selling and service, command a higher margin, and require more seller guarantees. Services are intangible, inseparable, variable, and perishable products (such as haircuts or cell phone service), so they normally require more quality control, supplier credibility, and adaptability.

Consumer-goods classification: Classified according to consumer shopping habits, these products include: convenience goods that are usually purchased frequently, immediately, and with a minimum of effort, such as newspapers; shopping goods that the customer, in the process of selection and purchase, characteristically compares on the basis of suitability, quality, price, and style, such as furniture; specialty goods with unique characteristics or

Introduction to Product Management

Notes

Horlicks is the product of Smithkleine Beecham

Notes

brand identification, such as cars, for which a sufficient number of buyers are willing to make a special purchasing effort; and unsought goods that consumers do not know about or do not normally think of buying, such as smoke detectors. Dealers that sell specialty goods need not be conveniently located but must communicate their locations to buyers; unsought goods require more advertising and personal sales support.

Audio oscillator was HP's first product introduced in 1938

Industrial-goods classification: Materials and parts are goods that enter the manufacturer's product completely. Raw materials can be either farm products (e.g. wheat) or natural products (e.g., lumber). Farm products are sold through intermediaries; natural products are generally sold through long-term supply contracts, for which price and delivery reliability are key purchase factors.

Manufactured materials and parts fall into two categories: component materials (iron) and component parts (small motors); again, price and supplier reliability are important considerations. Capital items are long-lasting goods that facilitate developing or managing the finished product. They include two groups: installations (such as factories) and equipment (such as trucks and computers), both sold through personal selling. Supplies and business services are short-lasting goods and services that facilitate developing or managing the finished product.

Check your progress

2. What do you mean by width ?

1.7 PRODUCT MIX

A product mix (also called product assortment) is the set of all products and items that a particular marketer offers for sale.

The product mix of an individual company can be described in terms of width, length, depth, and consistency. The width refers to how many different product lines the company carries. The length refers to the total number of items in the mix. The depth of a product mix refers to how many variants of each product are offered. The consistency of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way.

These four product-mix dimensions permit the company to expand its business by (1) adding new product lines, thus widening its product mix; (2) lengthening each product line; (3) deepening the product mix by adding more variants; and (4) pursuing more product-line consistency.

Check your progress

3. What are the types of Industrial goods?

1.8 PRODUCT LINE DECISIONS

Check your Progress

1. List the dimensions of a company's product mix

Especially in large companies such as Amul and Hindustan Unilever, the product mix consists of a variety of product lines. In offering a product line, the company normally develops a basic platform and modules that can then be expanded to meet different customer requirements. As one example, many home builders show a model home to which additional features can be added, enabling the builders to offer variety while lowering their production costs. Regardless of the type of products being offered, successful marketers do not make product-line decisions without rigorous analysis.

Notes

1.9 PRODUCT LINE ANALYSIS

To support decisions about which items to build, maintain, harvest, or divest, product-line managers need to analyze the sales and profits as well as the market profile of each item:

Sales and profits: The manager must calculate the percentage contribution of each item to total sales and profits. A high concentration of sales in a few items means line vulnerability. On the other hand, the firm may consider eliminating items that deliver a low percentage of sales and profits—unless these exhibit strong growth potential.

Market profile: The manager must review how the line is positioned against competitors' lines. A useful tool here is a product map showing which competitive products compete against the company's products on specific features or benefits. This helps management identify different market segments and determine how well the firm is positioned to serve the needs of each.

After performing these two analyses, the product-line manager is ready to consider decisions on product-line length, line modernization, line featuring, and line pruning.

After performing these two analyses, the product-line manager is ready to consider decisions on product-line length, line modernization, line featuring, and line pruning.

Companies seeking high market share and market growth will carry longer lines; companies emphasizing high profitability will carry shorter lines of carefully chosen items. Line stretching occurs when a firm lengthens its product line.

With a downmarket stretch, a firm introduces a lower price line. However, moving downmarket can be risky, as Kodak found out. It introduced Kodak Funtime film to counter lower-priced brands, but the price was not low enough to match the lower-priced competitive products. When regular customers started buying Funtime—cannibalizing the core brand—Kodak withdrew Funtime.

With an upmarket stretch, a company enters the high end of the market for more growth, higher margins, or to position itself as a full-line manufacturer. All of the leading Japanese automakers have launched an upscale automobile: Toyota launched Lexus; Nissan launched Infinity; and Honda launched Acura. (Note that these mar-keters invented entirely new names rather than using their own names.)

Companies that serve the middle market can stretch their product lines in both directions, as the Marriott Hotel group did. Alongside its medium-price hotels, it added the Marriott Marquis to serve the upper end of the market, the Courtyard to serve a lower segment, and Fairfield Inns to serve the low-to-moderate segment. The major risk of this two-way stretch is that some travelers will trade down after finding the lower-price hotels have most of what they want. But it is still better for Marriott to cap-ture customers who move downward than to lose them to competitors.

Notes

A product line can also be lengthened by adding more items within the present range. There are several motives for line filling: reaching for incremental profits, trying to satisfy dealers who complain about lost sales because of missing items in the line, trying to utilize excess capacity, trying to be the leading full-line company, and trying to plug holes to keep out competitors.

1-10 LINE FEATURING AND LINE PRUNING

Jeva, Maya, Exo, and Maxo are brands of Jyothi Laboratories Ltd.

The product-line manager typically selects one or a few items in the line to feature; this is a way of attracting customers, lending prestige, or achieving other goals. If one end of its line is selling well and the other end is selling poorly, the company may use featuring to boost demand for the slower sellers, especially if those items are produced in a factory that is idled by lack of demand. In addition, managers must periodically review the entire product line for pruning, identifying weak items through sales and cost analysis. They may also prune when the company is short of production capacity or demand is slow.

1-11 PRODUCT MANAGEMENT OR BRAND MANAGEMENT ORGANISATION

Companies producing a variety of products and brands often establish a product (or brand) management organization. The product-management organization does not replace the functional management organization but rather serves as another layer of management.

Check your progress

4. What are the roles of Product mannager?

A product manager supervises product category managers, who in turn supervise specific product and brand managers. A product-management organization makes sense if the company's products are quite different, or if the sheer number of products is beyond the ability of a functional marketing organization to handle

Product management first appeared in Procter & Gamble in 1929. A new soap, Camay, was not doing well, and a young P & G executive was assigned to give his exclusive attention to developing and promoting this brand. He was successful, and the company soon added other product managers. Since then, many organizations, especially in the food, soap, toiletries and chemical industries, have introduced the brand management system, which is in widespread use today.

1-12 TASKS PERFORMED BY PRODUCT MANAGERS

Check your progress

5. Which company introduced the concept - product manangement ?

Product and brand managers have these tasks:

Developing a long-range and competitive strategy for the product

Preparing an annual marketing plan and sales forecast

Check your Progress

2.Name the company which introduced Product Management

%Working with advertising and merchandising agencies to develop copy, programs, and campaigns

%Stimulating support of the product among the sales force and distributors

%Gathering continuous intelligence on the product's performance, customer and dealer attitudes, and new problems and opportunities

%Initiating product improvements to meet changing market needs

1-13 ADVANTAGES OF PRODUCT MANAGEMENT

The product-management organization brings in several advantages.

1. The product manager can focus on developing a cost-effective marketing mix for the product.

2. The product manager can react more quickly to problems in the marketplace than a team of functional specialists.

3. The company's smaller brands are less ignored, because they have a product promoter.

4. Product management also is an excellent guidance ground for young executives, because it involves them in almost every area of company operations

Notes

BPL stands for British Petrolieum Ltd and LG stands for Lucky Goldstar

1-14 DISADVANTAGES OF PRODUCT MANAGEMENT

1. Product management creates a few conflict and dissatisfaction. Normally, product managers are not given enough authority to carry out their responsibilities effectively. They have to rely on persuasion to get the cooperation of advertising, sales, manufacturing, and other departments.

2. Product managers become experts in their product but rarely achieve func-tional expertise. They dither between posing as experts and being frightened by real ex-perts. This is inopportune when the product depends on a specific type of expertise, such as advertising.

3. Product management system usually turns out to be costly. One person is appointed to manage each major product. Soon product managers are appointed to manage even minor products. Each product manager, usually overworked, pleads for an associate brand manager. Later, both overworked, they convince management to provide them an assistant brand manager. With all these people, payroll costs scale.

4. Brand managers normally administer a brand for only a short time. Either they move up in a few years to another brand, or they transfer to another company. Short-term involvement with the brand leads to short-term marketing planning and plays havoc with building the brand's long-term strengths.

5. Fragmentation of markets makes it harder to develop a national strategy from head office.

1-15 FIVE STEPS TO MAKE THE PRODUCT MANAGEMENT SYSTEM WORK BETTER:

1. Clearly delineate the limits of the product manager's role and responsibility.

***UK's biggest retailer is* Marks N Spencer *and US's biggest retailer is* Wal-Mart**

1. Clearly delineate the limits of the product manager's role and responsibility.

2. Build a strategy-development-and-review process to provide a framework for the product manager's operations.

3. Take into account areas of potential conflict between product managers and functional specialists when defining their respective roles.

4. Set up a formal process that forces to the top all conflict-of-interest situations between product management and functional line management.

5. Establish a system for measuring results consistent with the product man-ager's responsibilities.

1-16 SUMMARY

The concept of a product is complex and includes three levels: the core product, the actual product and the augmented product. Marketers must develop a product strategy that calls for co-ordinated decisions on product items, product lines and the product mix.

The core product is the essential benefit that the customer is really buying. The actual product includes the features, styling, quality, brand name and packaging of the product offered for sale. The augmented product is the actual product plus the various services offered with it, such as warranty, installation, maintenance and free delivery. There are three basic types of product classification. Durable goods are used over an extended period of time. Non-durable goods are consumed more quickly, usually in a single use or on a few usage occasions. Services are activities or benefits offered for sale which are basically intangible and do not result in ownership of anything. Each of these products can be bought by either consumer or industrial customers. Consumer goods are sold to the final end-user for personal consumption. Industrial goods are bought by individuals or organizations as goods that will receive further processing, or for use in conducting business.

Product strategy goes a step beyond individual product decisions, requiring that offerings be built into a logical portfolio through product line decisions, A product line is a group f products that are closely related because of similar function, customers, channels of distribution or pricing. A key dimension of the product line is the number of items it contains, referred to as the product line length. Profits are optimal when the line is of proper length. The product line length can be increased by stretching upwards to a higher-priced segment, or by stretching both ways. Profits can sometimes be increased by product line filling,

adding more items within the present range of the line. Managers also keep their products current through product line modernization

1.17 Answer to check your progress questions

1 The fundamental service or benefit that the customer realy buying.
2 Number of different product lines the company carries.
3 Component materials & component goods.
4 Supervising specific products, Supervising product category manager.
5 P & G (Procter and Gample in 1929)

1-18 EXERCISES AND QUESTIONS

1. Discuss product management function in a large sized FMCG and Heavy Engineering company of your choice

2. Enlist the product line of top three detergent soap manufacturers in India

3. Define product

4. How would you classify the product offered by restaurants: as durable goods or as services? Why?

1-19 FURTHER READING

1. Majumdar, Product Management in India, Prentice Hall of India, Third Edition, 2009

2. Kotler, Marketing Management, Prentice Hall of India, Millennium Edition, 2000

3. Lehmann and Winer, Product Management, Tata McGrawhill, Fourth Edition, 2005

UNIT 2
BUSINESS PLAN AND PRODUCT PORTFOLIO

UNIT STRUTURE

2.1 Unit Objective

2.2 Introduction

2.3 Elements of a Business plan

2.4 Formula for Success

2.5 Elements

2.6 Touch All Areas

2.7 Review of All elements

2.8 The product portfolio concept

2.9 The logic for portfolio approach

2.10 Type of display matrix

2.11 Summary

2.12 Answer to check your progress questions

2.13 Exercises and Questions

2.14 Further readings

Check your progress

1. What is the formula of successful business ?

2.1 UNIT OBJECTIVES

- To learn the elements of business plan
- To understand the formula for success
- To know the product portfolio concept
- To know the different types of display matrix

2.2 ELEMENTS OF A BUSINESS PLAN

The business plan for new product development can take several forms, depending on the circumstances and the type of product and businesses. They do, however, share many common traits and elements, and it is these elements that are mandatory for its value. The business plan is a means of obtaining funds, in addition to serving as a road map for the development of the business. Within this context, the business plan needs to be written such that it can initiate the appropriation of sufficient funding to execute a program. This is true for a group within a larger company, as well as for a start-up company seeking venture capital. The story told in the business plan should be effective and complete enough to secure financing from whatever means.

2.3 FORMULA FOR SUCCESS

Notes

No one format for a business plan will generate instant or guaranteed success. Each product opportunity will require different treatment, analysis, and planning. If there is a formula for success in preparing a business plan, it is in factoring in the objectives, the opportunities, the caveats, and the contingencies into a cohesive, executable plan and sticking to it through completion.

2.4 INCLUDE ALL OF THE ELEMENTS

The expansion of WIPRO is West Indian vegetable products Ltd

There are temptations to gloss over certain parts of a plan. Depending on the circumstances, however, this is never advisable. It is these loose assumptions that will haunt the program later. For example, in a larger company with an established sales channel, it may be tempting to gloss over the route to market. This may prove to be fatal for the program, if the product does not fit into the existing channel or the existing channel is too expensive to secure the market. The lesson here is to include all of the basic elements of the plan so as to double-check all of the assumptions.

Check your progress

2. What do you mean by sales channel ?

2.5 TOUCH ALL AREAS OF BUSINESS INITIALLY SO AS TO INTEGRATE: OTHERWISE, NEW PRODUCT DEVELOPMENT WILL NOT BE ABSORBED BY THE BUSINESS

If there is such a thing as a trial ballooning a business plan, then it should effectively trigger the various organizational immune systems in the corporation. The desire here is to see where the organizational boundaries lie and what corrective actions need to be taken to secure commitment to the endeavor. Make sure that all areas of the plan address all functional areas of the business. It is an effective way to garner support for the program. Failure to address this early will cause problems later because the business will not take ownership for the product, as they should. The program will be best served by determining the organizational issues. The business plan is an easy way to surface these issues and gather support.

2.6 REVIEW OF THE PLAN ELEMENTS

The following represents a typical example of the basic elements of a business plan. The purpose is to include all of the information required to assuage the concerns of the investor. This is important for acceptance whether it is in seeking funds from a venture capitalist, mezzanine financing, or from the next layer of management in a corporation.

A) OVERVIEW OF THE PLAN:

The chapter is describing the quick overview of the entire plan. It is designed to allow quick review of several plans in a short period in order for the manager or investor to

narrow down a list of opportunities to more closely scrutinize. It consists of the following four elements:

Notes

Reliance is India's largest synthetic textile producer

1. Business mission statement

The business mission statement provides the reader several critical pieces of information. It positions the business in terms of its products and services and how they relate to the customers and marketplace. It also states the general objectives of the concern and how it perceives itself in the cadre of competition. It also defines the scope of what the company's operations is about and will serve as a check against the proposed opportunity. Finally, it provides specific focus for the company to discourage wild deviations to tempting, but off strategy opportunities.

2. General market information

The next part of the summary is a legitimization of the market conditions that the plan is predicated on. General market data supporting the case for the new product development should be documented here.

3. Brief statement about competition

Since no marketing action is without reaction, and competition is always at the doorstep, a brief statement about the competitive climate is in order. The objective here is to convince the reader that the idea, business, and plan will overpower any competitive threat.

4. Critical factors for success

Every program has critical factors for success. These are usually company specific and must be reconciled as part of the initiative. Cite these factors so the reader can weigh the financial risk.

B. STATE OF THE COMPANY

This section of the business plan establishes the state of the company; its health (financially), the people, and the direction.

1. Status of the business

The first element to include is the current status of the business. It must be reviewed from two perspectives, internal and external. The format should consist of two basic elements:

a. External review perspective

The external review is a summary of how the market and competitors view the business and the company's participation in it.

b. Internal review perspective

The internal review is an introspective assessment of how the company and its managers view themselves, with respect to the marketplace and its customer base.

1. Corporate objectives

The plan also needs to have the company objectives in it. Be sure to include both the near-term and the long-term objectives. This will indicate a certain amount of resolve on the management team's part, as well as formulate an opinion in the investor's mind. This will be important if the program should founder a bit. In addition, state the long-term ownership objectives of the company. Is it growth for near-term sale or long-term measured growth and stability?

2. Management team description

This should not be a listing of résumés, since that will be included as detail information in an appendix. Rather, this should be a description of how the management team has accomplished something together. Again, this will give reassurance to the investor that the people in place can actually carry off the program. As part of this section, be sure to include the management team's objectives and how they perceive themselves as part of the enterprise.

C. THE MARKET AND ITS NEED

The plan now needs to focus on that segment that will eventually generate the revenue though the new product development program. Define the market need in terms of specifics. What set of customers will buy what, when, under what conditions, and at what price level? The following are the parts to this section, which characterize the market:

1. Introduction

The introduction is simply a means for the reader to become acquainted with the general area of the market under scrutiny.

2. Industry trends

The industry trends should give the reader an idea that the industry is a vital market to participate in, as opposed to a declining market, which may be overcrowded with players.

3. Market description

This section describes the general market in terms of wants and needs. It should outline what the customers buy and why they buy those products. It is designed to create familiarity on behalf of the reader with the patterns of market behavior.

4. Market trends

The market trends section needs to accomplish two basic things. The first is to cite and document specific trends in the marketplace from a historical perspective. The second is to project what the future trends will be based on past behavior and new technology available.

5. Market numbers/segments

This is the area to be specific and accurate. It is, in fact, the basis for the investor's due diligence in making the investment. The number presented here will be corroborated by a third-party source. Failure to be accurate and specific here will lead to rejection of the plan.

6. Market growth and stability

Check your progress

3. What do you mean by segmenttion ?

The investor needs assurances that the program they invest in will have a certain amount of growth stability. The market numbers and segments analysis can substantiate the conclusions in this section; however, it will be helpful to prepare a narrative explaining the company's flexibility in creating revenue in this market with the new product.

7. Competition analysis

Review what is happening with the competition in this area. Describe the competitive trends and how they may affect the new product plans. Include an explanation on the following:

a. Domestic versus global

Are there global players who may displace domestic development activities? Are there any threats to consider?

b. Functional displacement

Can the new product be functionally displaced by a flanking market move?

c. Sensitivity to external partnerships

Are you at risk by two or more competitors teaming up against your new product?

D) THE PRODUCTS

In this section of the business plan you need to clearly articulate the scope and configuration of the products. In addition, the plan must contain a description of how you will develop these products on time and on budget, and how you go from an opportunity to profitable products. What are the product descriptions? Define the scope, boundary, and use of the products in this description. What is the cost structure

of the products and will they generate profit? Explain why the products are a better long term solution than what is currently available.

Reemphasize the difference between research and development. Reassure the investor that the team understands the difference. Also, show that the product needs development, not research. This will go a long way to assuage their fears about funding endless activity without return.

Finally, develop and present a detailed product development schedule and timeline showing expected progress and measurable milestones. The development plan should include the following:

1. Schedule with dates and timeline

2. Funds expenditures with timeline

3. Critical factors for success

4. Technology basis for the products

E. MANUFACTURING

In this section the business plan needs to describe the manufacturing system that will be used to manufacture the product. Hopefully it will be consistent with the company's present manufacturing system; otherwise it could be perceived as an additional development in these systems. If the technology needs to be competitive on the world market, then the manufacturing system also needs to be competitive.

1. Describe who will manufacturer the product.

2. Describe what manufacturing systems will be used.

3. Describe how the labor force will be trained.

4. Describe how the certification of the labor force will be maintained.

F. MARKETING AND SALES

In this section describe how the products will be taken to market. Cite the route to market and its cost, as well as the strategy used in that route. Show how the customers will be targeted and include a typical expected timeline for a sale, from the introduction to the acceptance of the product. Describe who will market and sell the products. Factor in how you will capture your company's share of the channel participant's time and have them devote it to your product.

G. PRODUCT LAUNCH

Describe how and when the product launch will take place. Cite expected initial sales and forecasted demand. Project how the competition will react to the product launch. Develop and present countermeasure plans to sustain momentum. Describe the expectations of the channel participants and their expected performance

Notes

Voter indelible ink is manufactured only by the MysorePaints and Varnishes Ltd

Check your progress

4. What is the different b/w marketing and sales ?

Notes

'The sweet taste and of purity' is the baseline of Bisleri

Check your progress

5. What is meaning of Risk rate ?

for the company. Review the competitor's route to market and cite any differential advantages you may have. If there is an international element to the program, factor this into your presentation.

H. PROGRAM FINANCIAL SPECIFICS

The format for the business plan has largely been comprised of a narrative at this point. In this section specific numbers are expected to be presented for the investor's evaluation. The following are some of the essential elements:

1. Development budget requirements

2. Manufacturing budget requirements

3. Marketing budget requirements

4. Sales forecast (unit sales, not dollars, growth patterns in units, and timing)

5. Revenue projections

6. Profit projections

7. Balance sheet impact

8. Returns on investment and other measurabie

9. Risk analysis

I. CONTINGENCIES

Develop and cite contingency plans for each critical aspect of the plan. This will demonstrate that the plan was well considered, that the management team who authors the plan understands that things can and do go awry, and that recovery needs to be in the new product vocabulary. Make sure to cover the contingencies that are affected by people, finances, and technical issues.

J. AFTERMARKET PLANS

If the nature of the business has aftermarket requirements, these also need to be included in the plan. If there are incremental additions of manpower required for the product line, they need to be factored in at this time. Include elements such as repair, service, and customer support.

2.7 THE PRODUCT PORTFOLIO CONCEPT

The basis of portfolio concept lies in management of financial resources. Where in the optimal portfolio of stocks are decided based on the trade off between the expected returns and associated risk of the stock.

Drucker has suggested six-fold product classification-for effective resource allocation. His classification tends to have two product groups with positive

Notes

contribution. One with marginal contribution and three with negative contributions. A fair description of these groups are as follows.

1. Tomorrow's breadwinners

2. Today's breadwinners

3. Products with potential to contribute if attended to Yesterday's breadwinners

4. Yesterday's breadwinners

5. "Also ran"

6. Failures

In this typology, resource allocation is eased on the ranking. Tomorrow's breadwinners and today's breadwinners are provided with necessary resources. Yesterday's breadwinners, "Also ran ; and Failures are deprived of resources and some times allowed to die. The products falling in rank three are provided with resources depending on the potential.

In this procedure product contribution margin is used as the sole decision making indicator, subsequently, portfolio models are developed with several criteria like, market share, market growth, profitability, expected return, risk etc.

The advantage of product portfolio analysis is that it offers a structured set of dimensions to evaluate the current products comprehensively. The dimensions may vary from different portfolio models proposed in the marketing literature. There are two kinds of portfolio models, first one suggest normative dimensions as in the case of share/growth matrix proposed by Boston Consulting Groups. Which is popularly known as BCG matrix comprising relative market share and industry growth rates as the two dimensions. On the other hand product performance matrix allow the decision-maker to identify the relevant dimensions.

The primary tasks involved in portfolio analysis are to classify the products on the dimensions of the matrix and to developing strategies to move the products on the matrix towards a target or ideal matrix. The target matrix may include potential segments, products etc.

This extended portfolio would reflect the objectives of the management, desired direction of growth. This would help in dividing guidelines for resource allocation

Check your progress

6. What are the two types of portfolio models?

For constructing the product portfolio matrix three critical decisions have to be considered, namely trend of business considered for analysis, defining the served markets, and time frame for analysis.

2.8 THE LOGIC FOR PORTFOLIO APPROACH

The portfolio models proceed on analysis with the following course of thinking:

1). The opportunities for the product/market differ.

2). Products inherit different competitive strengths and exploiting opportunities.

3). In resource allocation decision for products, the major considerations are opportunity for product growth and profitability.

4). The corporate objectives would be decided based on the cumulative opportunities for all the products and competitive strength of these products.

5). Based on the corporate and individual product objectives, resources are allocated. However, it is not a straightforward process, it involves several interactions based on much involved analysis of sources and uses of resources.

2.9 TYPES OF DISPLAY MATRICES

The purpose of portfolio analysis is to optimally allocate resources for the best total return, with focus on the corporate strategies. Many different approaches involving different display matrices have evolved over the years; with the common objective of successful diversification.

1. Boston Consulting Group's Growth-Share Matrix

This is two-by-two product portfolio analysis using Market Growth Rate with Relative Market Share. It identifies its segments as Dogs, Cows, Stars and Question Marks (also called Wild Cat or Problem Child). These different businesses are categorized in terms of cash flow. Each segment is then populated by bubbles whose size is proportional to the size of the business activity, expressed in terms of sales, assets or some other measure.

2. McKinsey Matrix

This matrix is generally associated with General Electric and Shell Companies. It is a three-by-three matrix, which divides Industry Attractiveness and Business

Strength, into low, medium, and high segments each. The parameters are compound variables of different factors, to be either subjectively judged or objectively computed based on weighted judgments.

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Getjar, the world's second largest apps store with over 1 billion downloads after Apple app store

3. Strategic Planning Institute's Matrix

Strategic Planning Institute's program on Profit Impact of Market Strategy (PIMS) compares the company's profitability with the average profitability of the associated industry. DIMS matrix is based on business average profitability (PAR ROI), an industry characteristic determined by a cross-sectional, multi-dimensional regression study of the profitability to different businesses. This method avoids the judgmental weights of the previous approach, but some criticize this approach because of its heterogeneous population of dissimilar businesses.

4. Arthur D. Little Company's Matrix

This matrix uses Life Cycle Stages (Embryonic, Growth, Mature and Decline) with Business Strength (Weak, Tenable, Favorable, Strong and Dominant). The grid segments are then classified into Build, Hold, Harvest and Unpredictable R.OL

5. Hofer's Product / Market Evolution Matrix

This is a very similar matrix as above. Products are plotted in terms of their product/market evolution and the competitive position. Besides the above, there are other matrices associated with different consultants who have developed them to suit their specific needs for market differentiation. We will now discuss some of the above mentioned matrices in detail, starting with the pioneering BCG matrix.

2.10 SUMMARY

The activity focuses on preparing the business and product plan, which will be the road map to success. The objective of this chapter is to act as a guide in structuring an approach to the business plan, and ensuring all requisite steps are addressed so that the company can realize a return for their investment.

Portfolio Analysis is an important task of a product manager. It provides a framework for analysing the mutual compatibility of diverse operations of an organization. The portfolios of operations need to be balanced with respect to net cash flows, states of development, and the risks associated with each business activity.

After discussing the need for balancing the portfolio with respect to these aspects, different types of display matrices have been introduced in this unit.

Notes

2.12 Answer to check your progress questions

1 Factoring in the objectives, the oppurtunities, the caveats
2 It is the way the product is travelling from manufactures to the end user.
3 Dividing a big hetrogenious market into some number of homogenious markets is called market segmentation.
4 Delivery of customer satisfaction is marketing & Delivery of physical goods is sales.
5 Different between expected return and actual return is called risk rate.
6 (i) Share matrix (ii) Performance matrix.

2.13 EXERCISES AND QUESTIONS:

1. Discuss the elements of business plan?
2. Briefly discuss the product portfolio concepts?

2.14 FURTHER READINGS

Kotler, Phillip, Marketing Management, Prentice Hall of India Pvt. Ltd., New Delhi 2002

Kerin, R A, Vijay Mahajan and Rajan P Varadarajan, Contemporary Perspectives on Strategic Market Planning. Allyn and Bacon, Boston 1989.

Wind Y J (1982) Product Policy: Concepts, Methods, and Strategy, Addison-Wesley Pub Co. London.

UNIT 3
PRODUCT LIFE CYCLE

UNIT STRUTURE

3.1 Unit Objective
3.2 Introduction
3.3 Product Life Cycle stages
3.4 Analysis of Product Life Cycle Model
3.5 Positioning products through the life cycle
3.6 Use of product management for successful product life cycle
3.7 Summary
3.8 Answer to Check Your Progress Questions.
3.9 Exercises and questions
3.10 Further readings

3.1 UNIT OBJECTIVES

1. To know the different stages in the product life cycle
2. To analyze the product life cycle model
3. To study the factors while positioning the product through product life cycle stages.

To learn the use of product management for successful product life cycle

3.2 INTRODUCTION

All products and services have certain life cycles. The life cycle refers to the period from the product's first launch into the market until its final withdrawal and it is split up in phases. During this period significant changes are made in the way that the product is behaving into the market i.e. its reflection in respect of sales to the company that introduced it into the market. Since an increase in profits is the major goal of a company that introduces a product into a market, the product's life cycle management is very important. Some companies use strategic planning and others follow the basic rules of the different life cycle phase that are analyzed later.

The understanding of a product's life cycle, can help a company to understand and realize when it is time to introduce and withdraw a product from a market, its position in the market compared to competitors, and the product's success or failure.

For a company to fully understand the above and successfully manage a product's life cycle, needs to develop strategies and methodologies.

3.3 PRODUCT LIFE CYCLE

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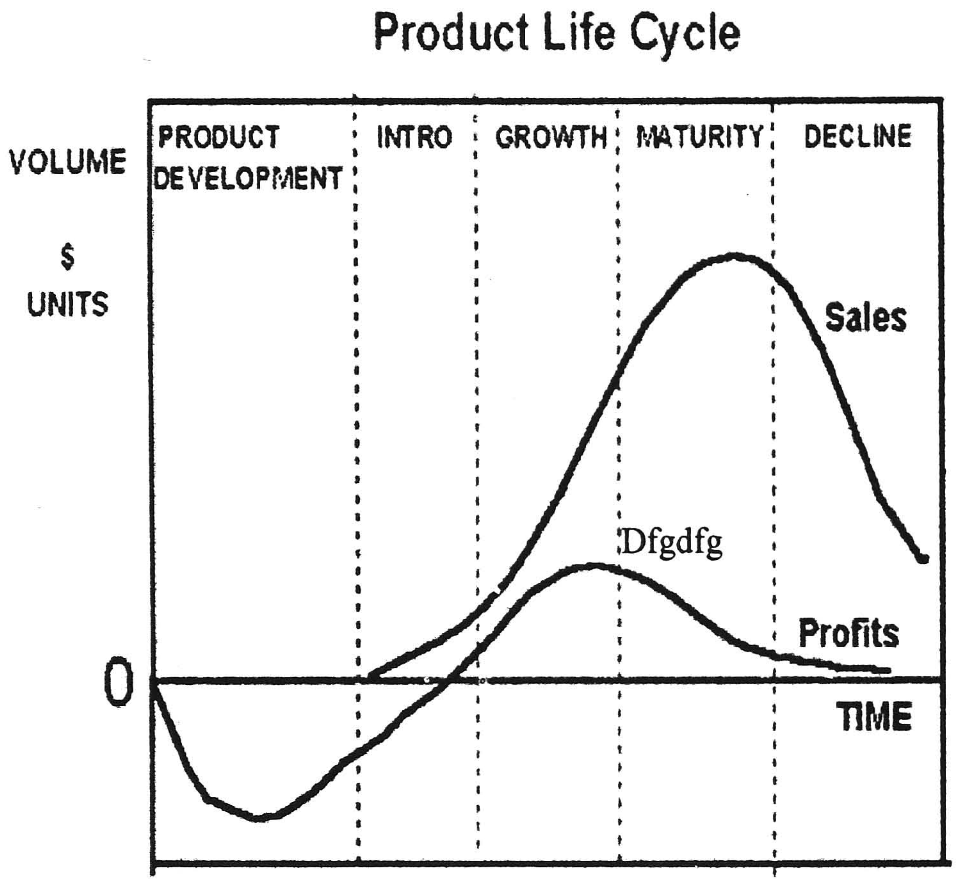
http://www.irtc.com is the largest traded e-commerce site i India

The product's life cycle - period usually consists of five major steps or phases: Product development, Product introduction, Product growth, Product maturity and finally Product decline. These phases exist and are applicable to all products or services from a certain make of automobile to a multimillion-dollar lithography tool to a one-cent capacitor. These phases can be split up into smaller ones depending on the product and must be considered when a new product is to be introduced into a market since they dictate the product's sales performance.Fig.3-1: Product Life Cycle Graph



Check Your Progress:

1 While product Development Stage, is there any profits earned by company?

3.3.1 PRODUCT DEVELOPMENT PHASE

Product development phase begins when a company finds and develops a new product idea. This involves translating various pieces of information and incorporating them into a new product. A product is usually undergoing several changes involving a lot of money and time during development, before it is exposed to target customers via test markets. Those products that survive the test market are then introduced into a real marketplace and the introduction phase of the product begins. During the product development phase, sales are zero and revenues are negative. It is the time of spending with absolute no return.

3.3.2 INTRODUCTION PHASE

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The introduction phase of a product includes the product launch with its requirements to getting it launch in such a way so that it will have maximum impact at the moment of sale. A good example of such a launch is the launch of "Windows XP" by Microsoft Corporation.This period can be described as a money sinkhole compared to the maturity phase of a product. Large expenditure on promotion and advertising is common, and quick but costly service requirements are introduced. A company must be prepared to spend a lot of money and get only a small proportion of that back. In this phase distribution arrangements are introduced. Having the product in every counter is very important and is regarded as an impossible challenge. Some companies avoid this stress by hiring external contractors or outsourcing the entire distribution arrangement. This has the benefit of testing an important marketing tool such as outsourcing

Check Your Progress

2 . What is the role c marketing mix in the introduction stage of PLC?

Pricing is something else for a company to consider during this phase. Product pricing usually follows one or two well structured strategies. Early customers will pay a lot for something new and this will help a bit to minimize that sinkhole that was mentioned earlier. Later the pricing policy should be more aggressive so that the product can become competitive. Another strategy is that of a pre-set price believed to be the right one to maximize sales. This however demands a very good knowledge of the market and of what a customer is willing to pay for a newly introduced product.

A successful product introduction phase may also result from actions taken by the company prior to the introduction of the product to the market. These actions are included in the formulation of the marketing strategy. This is accomplished during product development by the use of market research. Customer requirements on design, pricing, servicing and packaging are invaluable to the formation of a product design. A customer can tell a company what features of the product is appealing and what are the characteristics that should not appear on the product. He will describe the ways of how the product will become handy and useful. So in this way a company will know before its product is introduced to a market what to expect from the customers and competitors. A marketing mix may also help in terms of defining the targeted audience during promotion and advertising of the product in the introduction phase.

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Check Your Progress:

3 Cost of the product at the Growth stage of PLC__________

3.3..3 GROWTH PHASE

The growth phase offers the satisfaction of seeing the product take-off in the marketplace. This is the appropriate timing to focus on increasing the market share. If the product has been introduced first into the market, (introduction into a "virgin" market or into an existing market) then it is in a position to gain market share relatively easily. A new growing market alerts the competition's attention.The company must show all the products offerings and try to differentiate them from the competitor's ones. A frequent modification process of the product is an effective policy to discourage competitors from gaining market share by copying or offering similar products. Other barriers are licenses and copyrights, product complexity and low availability of product components.Promotion and advertising continues, but not in the extent that was in the introductory phase and it is oriented to the task of market leadership and not in raising product awareness. A good practice is the use of external promotional contractors.This period is the time to develop efficiencies and improve product availability and service. Cost efficiency and time-to-market and pricing and discount policy are major factors in gaining customer confidence. Good coverage in all marketplaces is worthwhile goal throughout the growth phase.

Managing the growth stage is essential. Companies sometimes are consuming much more effort into the production process, overestimating their market position. Accurate estimations in forecasting customer needs will provide essential input into production planning process. It is pointless to increase customer expectations and product demand without having arranged for relative production capacity. A company must not make the mistake of over committing. This will result into losing customers not finding the product "on the self".

3.3.4 MATURITY PHASE

When the market becomes saturated with variations of the basic product, and all competitors are represented in terms of an alternative product, the maturity phase arrives. In this phase market share growth is at the expense of someone else's business, rather than the growth of the market itself. This period is the period of the highest returns from the product. A company that has achieved its market share goal enjoys the most profitable period, while a company that falls behind its market share goal, must reconsider its marketing positioning into the marketplace.During this period new brands are introduced even when they compete with the company's existing

product and model changes are more frequent (product, brand, and model). This is the time to extend the product's life.

Pricing and discount policies are often changed in relation to the competition policies i.e. pricing moves up and down accordingly with the competitors' one and sales and coupons are introduced in the case of consumer products. Promotion and advertising relocates from the scope of getting new customers, to the scope of product differentiation in terms of quality and reliability.The battle of distribution continues using multi distribution channels2. A successful product maturity phase is extended beyond anyone's timely expectations. A good example of this is "Tide" washing powder, which has grown old, and it is still growing.

Notes

'Born ina gym not in a studio' is the tagline of Bajaj pulsar

3.3.5 DECLINE PHASE

The decision for withdrawing a product seems to be a complex task and there a lot of issues to be resolved before with decide to move it out of the market. Dilemmas such as maintenance, spare part availability, service competitions reaction in filling the market gap are some issues that increase the complexity of the decision process to withdraw a product from the market. Often companies retain a high price policy for the declining products that increase the profit margin and gradually discourage the "few" loyal remaining customers from buying it. Such an example is telegraph submission over facsimile or email.Sometimes it is difficult for a company to conceptualize the decline signals of a product. Usually a product decline is accompanied with a decline of market sales. Its recognition is sometimes hard to be realized, since marketing departments are usually too optimistic due to big product success coming from the maturity phase.

Check Your Progress:

4) In Declining phase of PLC, ________ segment of customers only consuming the product

This is the time to start withdrawing variations of the product from the market that are weak in their market position. This must be done carefully since it is not often apparent which product variation brings in the revenues.The prices must be kept competitive and promotion should be pulled back at a level that will make the product presence visible and at the same time retain the "loyal" customer. Distribution is narrowed. The basic channel is should be kept efficient but alternative channels should be abandoned. For an example, a 0800 telephone line with shipment by a reliable delivery company, paid by the customer is worth keeping.

3.4 ANALYSIS OF PRODUCT LIFE CYCLE MODEL

Notes

The full form of YAHOO is Yet Another Hierar-chial Officious Oracle

Check Your Progress:

5) Which stage of PLC the organization has to re-position their product?

There are some major product life cycle management techniques that can be used to optimize a product's revenues in respect to its position into a market and its life cycle. These techniques are mainly marketing or management strategies that are used by most companies worldwide and include the know-how of product upgrade, replacement and termination. To comprehend these strategies one must first make a theoretical analysis of the model of product life cycle.In the mid 70's the model of product life cycle described in above, was under heavy criticism by numerous authors. The reasons behind this criticism are described bellow:

a. The shift changes in the demand of a product along a period of time makes the distinction of the product life cycle phase very difficult, the duration of those almost impossible to predict and the level of sales of the product somewhat in the realm of the imagination.

b. There are many products that do not follow the usual shape of the product life cycle graph as shown in fig. 1.

c. The product life cycle does not entirely depend on time as shown in fig. 1. It also depends on other parameters such as management policy, company strategic decisions and market trends. These parameters are difficult to be pinpointed and so are not included in the product life cycle as described above. The model of product life cycle also depends on the particular product. There would be different models and so different marketing approaches. There are basically three different types of products: a product class (such as a car), a product form (such as a station wagon, coupe, family car etc of a particular industry) and a product brand of that particular industry (such as Ford Escort).

The life cycle of the product class reflects changes in market trend and lasts longer than the life cycle of the product form or brand. In the other hand the life cycle of a product form or brand reflects the competitiveness of a company (i.e. sales, profits) and therefore follows more closely the product life cycle model.

Nevertheless, a product manager must know how to recognize which phase of its life cycle is a product, regardless of the problems in the model discussed above. To do that a good method is the one, suggested by Donald Clifford in 1965, which follows.

• Collection of information about the product's behavior over at least a period of 3 – 5 years (information will include price, units sold, profit margins, return of investment – ROI, market share and value).

- Analysis of competitor short-term strategies (analysis of new products emerging into the market and competitor announced plans about production increase, plant upgrade and product promotion).
- Analysis of number of competitors in respect of market share.
- Collection of information of the life cycle of similar products that will help to estimate the life cycle of a new product.
- Estimation of sales volume for 3 – 5 years from product launch.
- Estimation of the total costs compared to the total sales for 3 – 5 years after product launch (development, production, promotion costs). The estimate should be in the range of 4:1 in the beginning to 7:1 at the stage where the product reaches maturity

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3.5 POSITIONING PRODUCTS THROUGH THE LIFE CYCLE

Characteristics	Introduction	Growth	Maturity	Decline
Sales	Low sales	rapidly rising Sales	Peak sale	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Marketing Objectives	Create pr awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand
Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brands and items	Phase out weak models
Price	Charge cost-plus	Price to penetrate market	Price to match or best · competitors'	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable Outlets
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyal
Sales Promotion	Use heavy sales promotion entice trial	Reduce to take to advantage of heavy consumer	Increase to encourage brand switching	Reduce to minimal level

3.6 USE OF PRODUCT MANAGEMENT FOR SUCCESSFUL PRODUCT LIFE CYCLE

Product management is a middle level management function that can be used to manage a products life cycle and enables a company to take all the decisions needed during each phase of a product's life cycle. The moment of introduction and of withdrawal of a product is defined by the use of product management by a Product Manager. A Product Manager

exists for three basic reasons. For starters he manages the revenue, profits, forecasting, marketing and developing activities related to a product during its life cycle. Secondly, since to win a market requires deep understanding of the customer, he identifies unfulfilled customer needs and so he makes the decision for the development of certain products that match the customers and so the markets needs. Finally he provides directions to internal organization of the company since he can be the eyes and ears of the products path during its life cycle.To improve a product success during each of its phase of its life cycle (development -introduction – growth – maturity – decline), a product manager must uphold the following three fundamentals.

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You have seen BSA biccycles on Indian roads BSA stand for Birming ham Small Arms

❖ Understand how product management works: When responsible for a given new product, a product manager is required to know about the product, the market, the customers and the competitors, so that he van give directions that will lead to a successful product. He must be capable of managing the manufacturing line as well as the marketing of the product.

Check Your Progress:

6) ________ stage of PLC is indicating the increasing profit and penetration prici

When the product manager has no specific authority over those that are involved in a new product, he needs to gather the resources required for the organization to meet product goals. He needs to know where to look and how to get the necessary expertise for the success of the product.

❖ Maintain a product / market balance: The product manager as the person that will make a new product to work, needs to understand and have a strong grasp of the needs of the customer / market and therefore make the right decisions on market introduction, product life cycle and product cannibalization. To achieve the above he must balance the needs of the customers with the company's capabilities. Also he needs to balance product goals with company objectives. The way a product's success is measured depends on where the product is in its life cycle. So the product manager must understand the strategic company direction and translate that into product strategy and product life cycle position.

❖ Consider product management as a discipline: Managing a product must not be taken as a part time job or function. It requires continuous monitoring and review. Having said that, it is not clear why many companies do not consider product management as a discipline. The answer lies in the fact that product management is not taught as engineering or accounting i.e. does not have formalized training

3.7 SUMMARY

Product life cycle management (or **PLCM**) is the succession of strategies used by business management as a product goes through its life cycle. The condition in which a product is sold (advertising, saturation) changes over time and must be managed as it moves through its succession of stages. It is claimed that every product has a life period, it is launched, and it grows, and at some point, may die. A fair comment is that - at least in the shcrt term - not all products or services die. Jeans may die, but clothes probably will not. Legal services or medical services may die, but depending on the social and political climate, probably will not.

The PLC model is of some degree of usefulness to marketing managers, in that it is based on factual assumptions. Nevertheless, it is difficult for marketing management to gauge accurately where a product is on its PLC graph. A rise in sales *per se* is not necessarily evidence of growth. A fall in sales *per se* does not typify decline. Furthermore, some products do not (or to date, at the least, have not) experienced a decline. Coca Cola and Pepsi are examples of two products that have existed for many decades, but are still popular products all over the world. Both modes of cola have been in maturity for some years.

3.8 Answer to Check Your Progress Questions:

1. No 2.Marketing mix is helps in terms of defining the targeted audience, during promotion and advertising of the product. 3. Average 4.Loyal Customers 5.Ending Stage of maturity stage. 6. Growth Stage

3.9 EXERSICES AND QUESTIONS

1. Discuss product life cycle stages with suitable examples for each stage?
2. Criticize product life cycle model?

3.10 FURTHER READING

1. PRODUCT LIFECYCLE MANAGEMENT.

   A. Saaksvuori and A. Immonen, Springer.

2. Product lifecycle management: 21st century paradigm for product realization, John stark, Springer- Verlog London limited, 2005

UNIT 4
NEW PRODUCT DEVELOPMENT

UNIT STRUTURE

4.1 UNIT OBJECTIVES

4.2 INTRODUCTION

4.3 NEW PRODUCT – MEANING

4.4 TYPES OF NEW PRODUCTS

4.5 NEW PRODUCT DEVELOPMENT STAGE

4.6 CONSUMER ADOPTION PROCESS

4.7 SUMMARY

4.8 ANSWER TO CHECK YOUR PROGRESS QUESTIONS

4.9 EXERCISES AND QUESTIONS

4.10 FURTHER READING

Notes

4.1 UNIT OBJECTIVES

1.To understand the meaning of new product

2.To know the different types of new product

3.To understand the different stages in the new product development process.

4.To learn the consumer adoption process.

Check your progress

1. The main reason to developing a new product is ________

4.2 INTRODUCTION

Every company, regardless of size, must research and create new products to maintain or build sales. Why? Customers want new products and choices, and competitors will be doing their best to supply them. Over 16,000 new products (including line extensions and new brands) arrive on grocery and drugstore shelves every year, having made their way through the new product development process from bright idea to testing to commercialization.Not every new product catches on, of course, and those that do are adopted by customers at different rates. This is why smart marketers target early adopters and use marketing tactics that will facilitate consumer movement through the various stages in the adoption process.Companies normally reformulate their marketing strategy several times during a product's life as economic conditions change, competitors launch new assaults, and the product passes through new stages of buyer interest and requirements. Successful companies plan marketing strategies that are appropriate to each stage in the

Notes

IBM invented computer Floppy disc in 1970

product's life cycle and hope to extend each product's life and profitability, knowing that no product lasts forever. The key to setting one offering apart from competing offers throughout the life cycle is to select a suitable differentiation strategy and create a distinctive position in the market.

4.3 NEW PRODUCT DEVELOPMENT (NPD)

In business and engineering, **new product development** (NPD) is the term used to describe the complete process of bringing a new product or service to market. There are two parallel paths involved in the NPD process: one involves the idea generation, product design and detail engineering; the other involves market research and marketing analysis. Companies typically see new product development as the first stage in generating and commercializing new products within the overall strategic process of product life cycle management used to maintain or grow their market share.

4.4 TYPES OF NEW PRODUCT DEVELOPMENT

Check your progress

2. What do you mean by Product Line ?

There are a variety of different types of new product developments in existence today. Each is used for a different reason, and each has its own objectives and dynamics for execution. The following is a common list of the different types and their attributes and contributions.

4.4.1 New-to-the-world type products

These are somewhat revolutionary to the marketplace in that the marketplace never had exposure to the product directly, perhaps only as a concept or prediction from a futurist. They generally create entire new markets never before existing. An example would be the cellular telephone. Only predicted vaguely by the Dick Tracy cartoon strip and personified as a "communicator" in Star Trek, the cellular telephone has revolutionized person to person communications in modern day society.

These product development programs generate entire new markets that were not previously there. They enable true growth in the economy by generating revenue to the enterprise. The also have a multiplication effect in the economy by generating requirements for parts and subassemblies that need to be developed and supplied by the vendors. In many cases they generate new channels of sale and new routes to market.

4.4.2 New product lines

These new categories of products allow entry into newer markets not previously participated in by the manufacturer. By adding the categories, the manufacturer must be careful to protect the positioning of the existing products, which generate the existing business.

Failure to do so will place them in danger of converting loyal customers away from one already successful product to a new one with no net gain in market share. Perhaps a good example of this type of product would be the GM Saturn. Here a large manufacturer with many product lines generated an entire new category of car to serve a more discerning customer base. Careful not to jeopardize their existing base, this "new car company" launched its product in a new dealership with new business practices and also allowed GM to "test drive" innovative marketing programs.

The new product lines generate incremental revenue to the manufacturer by leveraging the markets familiarity with the manufacturer into new categories of products, In many cases, the market's familiarity with the manufacturer paves the way for new categories of products. Sometimes, these products go into new markets, but can also be an alternative to existing ones.

4.4.3 Additions to existing product lines

These efforts support existing product lines by creating line completers to extend the influence of the original products' brand to larger audiences or extending range, power, and scope. All are done in the attempt to secure more of a market. An example of this type of product would be the M&M candy extending their product line to M&M peanut and M&M almond and seasonal M&M for Christmas and Easter.

The addition to existing lines has a similar effect to the company's revenue as the new product lines. They generate incremental revenue by leveraging the existing product familiarity rather than the company familiarity. These programs generate incremental improvement in the economy, but generally fall short of the contribution made by the totally new products.

4.4.4 Improvements and revisions of existing products

As time marches on, customers have higher expectations do not product, and competition adds features to their offering, it becomes necessary to improve the company's offering to increase market share or to retain it. By redesigning the product or repackaging it, the company can offer a greater value or satisfaction to the customer. It is possible to temporarily affect this by enhancing perceived value; however, an ever more informed customer base will respond to actual value increased in the long run. An example of this type of product development is the automotive companies adding features to the base model each year as standard.

Generally, the improvements to existing products do not generate additional revenue to speak of. They are simply a means to retain the market share or to slightly improve it. They are defensive in nature and in many cases are stopgap measures

until a new product program can be prosecuted. These programs do little to generate a vitalized economy in the long run but can provide time and revenue to prosecute the development of the replacement.

4.4.5 Repositioning

Another means of increasing or maintaining market share is through repositioning. A repositioning is an exercise in changing the perception in the mind of the consumer. It generally can happen with products that are lower in value (dollar amount) or the consumer spends little time evaluating the actual data. For high dollar decisions, the consumer will generally take the time to evaluate the facts and make their own decision. Repositioning is truly a marketing activity, rather than a development activity. An example of this is a change of in advertising by focusing the audience on a possible linkage drawn between certain brands of cereal and a high fiber, lower cancer risk, diet.

Repositioning is another stopgap measure for generating revenue from an existing product. It does not generate overall growth in the economy per se, it is similar to the improvement or the revision, except that it doesn't even require a product change necessarily, simply repositioning the product in the mind of the consumer.

4.4.6 Cost reductions

These programs are strictly a means for reducing the cost of products to offer similar value. It generally is the result of a competitive initiative either internally generated or from external forces. In many cases, it is simple a means to generate more volume to generate less incremental profit but perhaps more overall profit.

Whatever the motive, a cost reduction is generally meant to increase unit volume through the channel. This becomes easier with capital equipment costs and development costs absorbed, and the manufacturer wants to capitalize on the sales channel.

4.5 NEW PRODUCT DEVELOPMENT STAGES

A company can add new products in two ways: through acquisition (buying another company, buying another firm's patent, or buying a license or franchise) or through development (using its own laboratories, hiring independent researchers, or hiring a new-product-development firm). Moreover, there is more than one category of new product.

Cost reductions are helpful to the organization by generating additional margin off of the existing product. This margin can absorb development costs, and manufacturing set up costs. In many cases it provides a period of time to continue the

product, generated the revenue and allow the organization to position itself with the new product. It does not however generate any real growth in the economy.

4.5.1 MANAGING NEW PRODUCTS: IDEAS TO STRATEGY

Notes

India's first colour TV was launched by Videocon International limited through a technical tie-up with Toshiba of Japan in 1983

If the product concept passes the business analysis test, it moves on to be developed into a physical product. Up to now, it has existed only as a word description, drawing, or prototype. This step involves a large jump in investment that dwarfs the costs incurred in the earlier stages. If the company determines that the product idea cannot be translated into a technically and commercially feasible product, the accumulated project cost will be lost—except for any useful information gained in the process.

4.5.1.1 Idea Generation

The marketing concept holds that *customer needs and wants* are the logical place to start the search for new product ideas. Hippel has shown that the highest percentage of ideas for new industrial products originates with customers. Many of the best ideas come from asking customers to describe their problems with current products. For instance, in an attempt to grab a foothold in steel wool soap pads, 3M organized consumer focus groups and asked about problems with these products. The most frequent complaint was that the pads scratched expensive cookware. This finding produced the idea for the highly successful Scotch-Brite Never Scratch soap pad. In addition to customers, new-product ideas can come from many sources: scientists, competitors, employees, channel members, sales reps, top management, inventors, patent attorneys, university and commercial laboratories, industrial consultants, advertising agencies, marketing research firms, and industry publications.

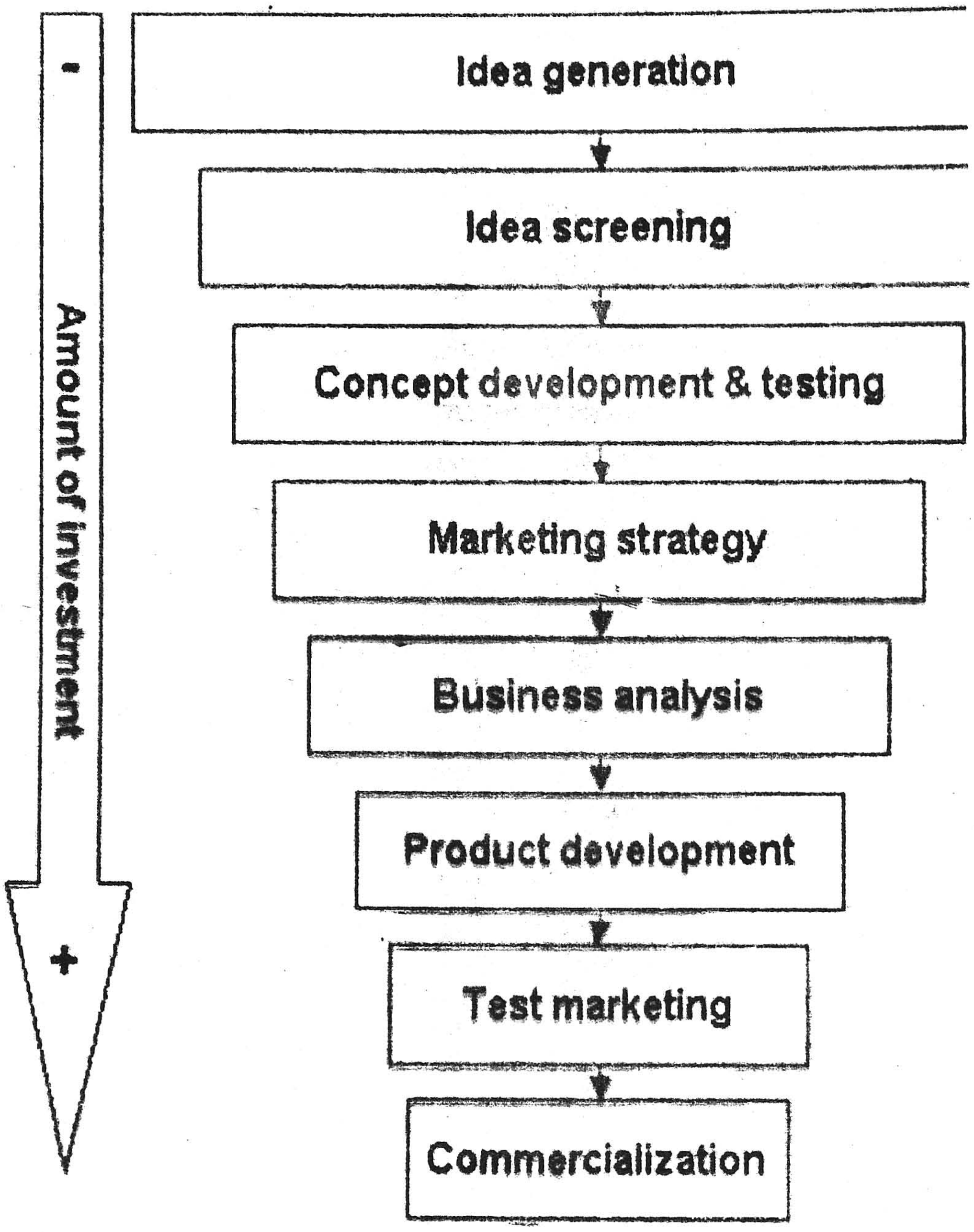
Notes

HSBC introduced India's first ATM in 1987

Check your progress

3. What is the Abstract meaning of Idea screening?

Fig 4-1 The New-Product-Development Decision Process



4.5.1.2 Idea Screening

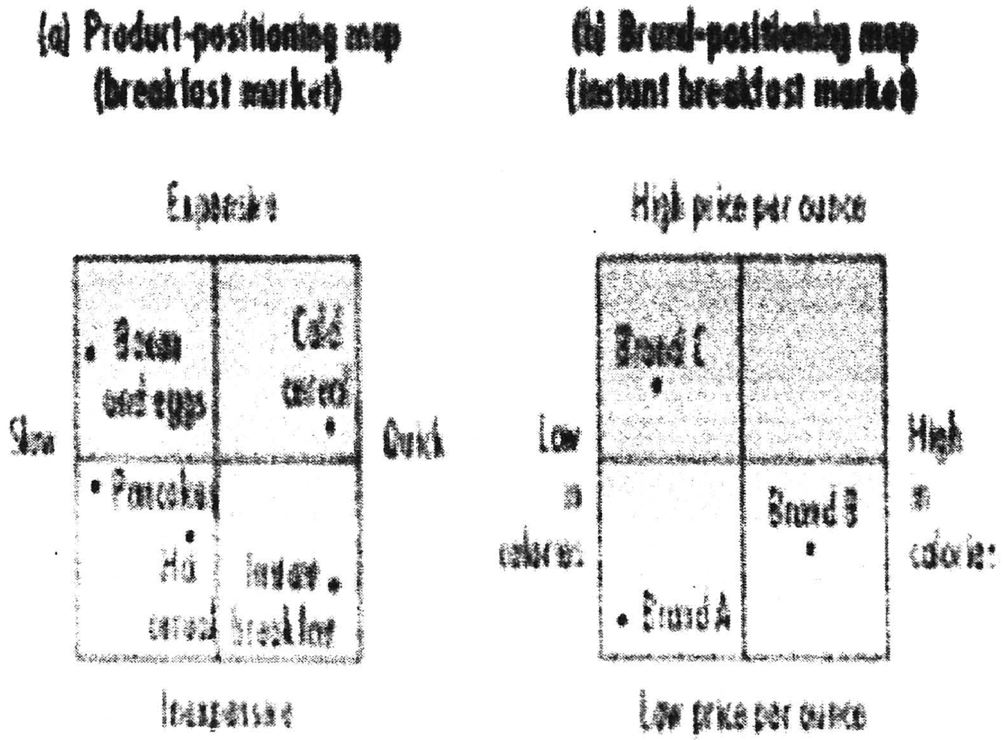
Once the firm has collected a number of new product ideas, the next step is to screen out the weaker ideas, because product-development costs rise substantially with each successive development stage. Most companies require new-product ideas to be described on a standard form that can be reviewed by a new-product committee. The description states the product idea, the target market, and the competition, along with a rough estimate of the market size, product price, development time and costs, manufacturing costs, and rate of return. The new-product committee then reviews each idea against criteria such as: Does the product meet a need? Would it offer superior value? Will the new product deliver the expected sales volume, sales growth, and profit? The ideas that survive this screening move on to the concept development stage.

4.5.1.3 Concept Development

A *product idea* is a possible product the company might offer to the market. In contrast, a *product concept* is an elaborated version of the idea expressed in meaningful consumer terms. A product idea can be turned into several concepts by asking: Who will use this product? What primary benefit should this product provide? When will people consume or use this product? By answering such questions, a company can often form several product concepts, select the single most promising concept, and create a *product-positioning map* for it.

This Figure shows the positioning of a product concept, a low-cost instant breakfast drink, compared to other breakfast foods already on the market. Next, the product concept has to be turned into a *brand concept.* To transform the concept of a low-cost instant breakfast drink into a brand concept, the company must decide how much to charge and how calorific to make its drink. Figure 3-9 shows a *brand-positioning map* that reflects the positions of three instant breakfast drink brands. The gaps on this map indicate that the new brand concept would have to be distinctive in the medium-price, medium-calorie market or the high-price, high-calorie market.

Fig 4-2 Product and Brand Positioning



4.5.1.4 Concept Testing

Concept testing involves presenting the product concept to appropriate target consumers and getting their reactions. The concepts can be presented symbolically or physically. However, the more the tested concepts resemble the final product or

experience, the more dependable concept testing is. In the past, creating physical prototypes was costly and time-consuming, but computer-aided design and manufacturing programs have changed that. Today firms can design a number of prototypes via computer and then create plastic models to obtain feedback from potential consumers.8 Companies are also using virtual reality to test product concepts.

Many companies today use *customer-driven engineering* to design new products. Customer-driven engineering attaches high importance to incorporating customer preferences in the final design. National Semiconductor uses the Internet to enhance its customer-driven engineering by tracking what customers search for on its Web site. Sometimes, says the company's Web services manager, it is more important to know when a customer did not find a product than when he did. That helps National Semiconductor shrink the time needed to identify market niches and create new products

4.5.1.5 Marketing Strategy Development

After testing and selecting a product concept for development, the new-product manager must draft a three-part preliminary marketing-strategy plan for introducing the new product into the market. The first part will describe the target market's size, structure, and behavior; the planned product positioning; and the sales, market share, and profit goals sought in the first few years. The second part will outline the planned price, distribution strategy, and marketing budget for the first year. The third part will describe the long-run sales and profit goals and marketing-mix strategy over time. This plan forms the basis for the business analysis that is conducted before management makes a final decision on the new product.

4.5.1.6 Business Analysis

In this stage, the company evaluates the proposed new product's business attractiveness by preparing sales, cost, and profit projections to determine whether these satisfy company objectives. If they do, the product concept can move to the product-development stage. Note that this cannot be a static process: As new information emerges, the business analysis must be revised and expanded accordingly.

a) Estimating Total Sales

First, management needs to estimate whether sales will be high enough to yield a satisfactory profit. Total estimated sales are the sum of estimated first-time sales, replacement sales, and repeat sales. For one-time purchased products, such as a

retirement home, sales rise at the beginning, then peak, and later approach zero as the number of potential buyers is exhausted; if new buyers keep entering the market, the curve will not drop to zero. Infrequently purchased products—such as automobiles and industrial equipment—exhibit replacement cycles that are dictated by physical wearing out or by obsolescence due to changing styles, features, and performance; sales forecasting calls for estimating first-time sales and replacement sales separately.

Notes

Central bank was the first bank in India introduced Debit cards

For frequently purchased products, such as consumer and industrial nondurables like soap, the number of first-time buyers initially increases and then decreases as fewer buyers are left (assuming a fixed population). Repeat purchases occur soon, providing that the product satisfies some buyers. The sales curve eventually falls to a plateau representing a level of steady repeat-purchase volume; by this time, the product is no longer a new product.

b) Estimating Costs and Profits

Check your progress

4. In risk analysis the optimistic profit is ___

After preparing the sales forecast, management should analyze expected costs and profits based on estimates prepared by the R&D, manufacturing, marketing, and finance departments.

Companies can also use other financial measures to evaluate new-product proposals. The simplest is *break-even analysis,* in which management estimates how many units of the product the company will have to sell to break even with the given price and cost structure.

The most complex method of estimating profit is *risk analysis.* Here, three estimates (optimistic, pessimistic, and most likely) are obtained for each uncertain variable affecting profitability under an assumed marketing environment and marketing strategy for the planning period. The computer simulates possible outcomes and computes a rate-of-return probability distribution showing the range of possible rates of returns and their probabilities

4.5.2 MANAGING NEW PRODUCTS: DEVELOPMENT TO COMMERCIALIZATION

If the product concept passes the business analysis test, it moves on to be developed into a physical product. Up to now, it has existed only as a word description, drawing, or prototype. This step involves a large jump in investment that dwarfs the costs incurred in the earlier stages. If the company determines that the product idea cannot be translated into a technically and commercially feasible product, the accumulated project cost will be lost—except for any useful information gained in the process.

4.5.2.1 Product Development

The job of translating target customer requirements into a working prototype is helped by a set of methods known as *quality function deployment* (QFD). This methodology takes the list of desired *customer attributes* (CAs) generated by market research and turns them into a list of *engineering attributes* (EAs) that the engineers can use. For example, customers of a proposed truck may want a certain acceleration rate (CA). Engineers turn this into the required horsepower and other engineering equivalents (EAs). QFD allows firms to measure the trade-offs and costs of satisfying customer requirements; it also improves communication among marketing, engineering, and manufacturing.

Next, the firm uses QFD to develop one or more physical versions of the product concept. The goal is to find a prototype that customers believe embodies the key attributes described in the product-concept statement, that performs safely under normal use, and that can be produced within the budget. The rise of the World Wide Web has driven more rapid prototyping and more flexible development; prototype-driven firms such as Yahoo! and Microsoft cherish quick-and-dirty tests and experiments.

When the prototypes are ready, they are put through rigorous *functional tests* and *customer tests*. *Alpha testing* means testing the product within the firm to see how it performs in different applications. After refining the prototype further, the company moves to *beta testing*, enlisting customers to use the prototype and give feedback on their experiences

Beta testing is most useful when the potential customers are heterogeneous, the potential applications are not fully known, several decision makers are involved in purchasing the product, and opinion leadership from early adopters is sought.

Consumer testing can take a variety of forms, from bringing consumers into a laboratory to giving them samples to use in their homes. In-home placement tests are common with products ranging from ice cream flavors to new appliances. For example, when DuPont developed its new synthetic carpeting, it installed free carpeting in several homes in exchange for the homeowners' willingness to report their likes and dislikes about the carpeting.

4.5.2.2 Market Testing

After management is satisfied with functional and psychological performance, the product is ready to be dressed up with a brand name and packaging, and put to a

market test. The new product is now introduced into an authentic setting to learn how large the market is and how consumers and dealers react to handling, using, and repurchasing the product. For example, idea lab! is in the business of launching new Internet ventures (eToys was one). Before starting Cars Direct, a Web-based car buying service, idea lab! Put up a live Web page and monitored on-line market reaction. In just one evening, the site sold four cars—results that hinted at the product's potential for strong market acceptance

Notes

Douglas Engelbert invent the computer mouse in 1968

a) Consumer-Goods Market Testing

In testing consumer products, the company seeks to estimate four variables: trial, first repeat purchase, adoption, and purchase frequency. The company hopes to find all of these variables at high levels. In some cases, however, it will find many consumers trying the product but few re-buying it. Or it might find high permanent adoption but low purchase frequency (as with gourmet frozen foods). The major methods of consumer-goods market testing, from the least to the most costly, are:

Sales-wave research. Consumers who initially try the product at no cost are reoffered the product, or a competitor's product, at slightly reduced prices, as many as three to five times (sales waves). The company notes how many customers select its product again and their reported level of satisfaction.

Simulated test marketing. Up to 40 qualified buyers first answer questions about brand familiarity and product preferences. These buyers are invited to look at commercials or print ads, including one for the new product, then they are given money and brought into a store where they can make purchases. The company notes how many people buy the new brand and competing brands as a test of the ad's relative effectiveness against competing ads in simulating trial. Consumers are also asked why they bought or did not buy; nonusers receive a free sample of the new product and are re-interviewed later to determine product attitudes, usage, satisfaction, and repurchase intention

Controlled test marketing. A research firm manages a panel of stores that will carry new products for a fee. The company with the new product specifies the number of stores and geographic locations it wants to test. The research firm delivers the product to the participating stores and controls shelf position; number of facings, displays, and point-of-purchase promotions; and pricing. Sales results can be measured through electronic scanners at the checkout. The company can also evaluate the impact of local advertising and promotions during this test.

Notes

Cell phone was invented by Motorola and the inventor was Martin cooper

Test markets. When full-blown, the company chooses a few representative cities, the sales force tries to sell the trade on carrying the product and giving it good exposure, and the company unleashes a full advertising and promotion campaign in these markets. Here, marketers must decide on the number and location of test cities, length of the test, what to track, and what action to take. Today, many firms are skipping extended test marketing and relying instead on faster and more economical market-testing methods, such as smaller test areas and shorter test periods.

a) Business-Goods Market Testing

Business goods can also benefit from market testing. Expensive industrial goods and new technologies will normally undergo both alpha and beta testing. In addition, new business products are sometimes market-tested at trade shows. Trade shows such as the annual Toy Fair and semiannual Internet World draw a large number of buyers who view many new products in a few concentrated days.

The vendor can observe how much interest buyers show in the new product, how they react to various features and terms, and how many express purchase intentions or place orders. The disadvantage of trade shows is that they reveal the product to competitors; therefore, the vendor should be ready to launch the product soon after the trade show.

Check your progress

5. Objective of commercialization is ___________

4.5.2.3 Commercialization

If the company goes ahead with commercialization, it will face its largest costs to date. The company will have to contract for manufacture or build or rent a full-scale manufacturing facility. Plant size will be a critical decision. The company may choose to build a smaller plant than called for by the sales forecast, to be on the safe side. Quaker Oats did this when it launched its 100 Percent Natural breakfast cereal. Unfortunately, demand so exceeded the company's sales forecast that for about a year it could not supply enough product to the stores. Although Quaker Oats was gratified with the response, the low forecast cost it a considerable amount of profit. In addition to promotional decisions, other major decisions during this stage include:

When (timing). Marketing timing is critical. If a firm learns that a competitor is nearing the end of its development work, it can choose: *first entry* (being first to market, locking up key distributors and customers, and gaining reputational leadership; However, if the product is not thoroughly debugged, it can acquire a flawed image); *parallel entry* (launching at the same time as a rival may gain both products more

attention from the market); or *late entry* (waiting until after a competitor has entered lets the competitor bear the cost of educating the market and may reveal problems to avoid).

Where (geographic strategy). The company must decide whether to launch the new product in a single locality, a region, several regions, the national market, or the international market. Smaller companies often select one city for a blitz campaign, entering other cities one at a time; in contrast, large companies usually launch within a whole region and then move to the next region, although companies with national distribution generally launch new models nationally. Firms are increasingly rolling out new products simultaneously across the globe, which raises new challenges in coordinating activities and obtaining agreement on strategy and tactics.

To whom (target-market prospects). Within the rollout markets, the company must target its initial distribution and promotion to the best prospect groups. Presumably, the company has already profiled the prime prospects—who would ideally be early adopters, heavy users, and opinion leaders who are able to be reached at a low cost. The company should rate the various prospect groups on these characteristics and then target the best prospect group to generate strong sales as soon as possible, motivate the sales force, and attract further prospects.

How (introductory market strategy). The company must develop an action plan for introducing the new product into the rollout markets. To coordinate the many activities involved in launching a new product, management can use network planning techniques such as *critical path scheduling* (CPS), which uses a master chart to show the simultaneous and sequential activities that must take place to launch the product. By estimating how much time each activity takes, the planners can estimate the project's completion time. A delay in any activity on the critical path will delay the entire project.

4.6 THE CONSUMER ADOPTION PROCESS

Adoption is an individual's decision to become a regular user of a product. How do potential customers learn about new products, try them, and adopt or reject them? In the past, companies used a *mass-market approach* to introduce new products, on the assumption that most people are potential buyers. Yet consumers have different levels of interest in new products and brands. The theory of innovation diffusion and consumer adoption helps marketers to identify and target *early adopters*—people who adopt products before the majority of consumers in the market.

Notes

Net safe credit card was introduced by HDFC bank

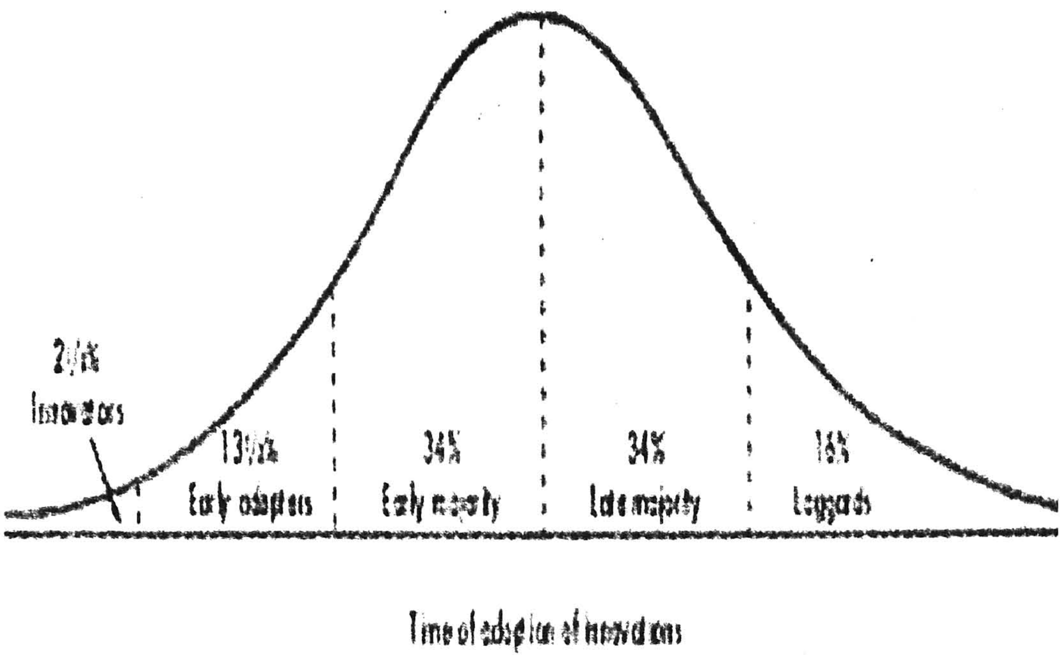


Fig 4-3 Consumer Adoption Stages

An *innovation* refers to any good, service, or idea that is *perceived* by someone as new. The consumer-adoption process focuses on the mental process through which an individual passes from first hearing about an innovation to final adoption.

People adopt new products at different rates: Innovators are the first to adopt something new, while laggards are the last. Rogers defines a person's innovativeness as "the degree to which an individual is relatively earlier in adopting new ideas than the other members of his social system." Because people differ in their readiness to try new products, there are consumption pioneers and early adopters for each product. After a slow start, an increasing number of people adopt the innovation, the number reaches a peak, and then it diminishes as fewer non-adopters remain.

4.7 SUMMARY

Most industry leaders see new product development as a *proactive* process where resources are allocated to identify market changes and seize upon new product opportunities before they occur (in contrast to a *reactive strategy* in which nothing is done until problems occur or the competitor introduces an innovation). Many industry leaders see new product development as an ongoing process (referred to as *continuous development*) in which the entire organization is always looking for opportunities.

The NPD process typically requires both engineering and marketing expertise; cross-functional teams are a common way of organizing projects. The team is responsible for all aspects of the project, from initial idea generation to final commercialization, and they usually report to senior management (often to a vice president or Program Manager). In those industries where products are technically complex, development research is typically expensive, and product life cycles are relatively short, strategic alliances among several

organizations helps to spread the costs, provide access to a wider skill set, and speeds the overall process.

4.8 ANSWER TO CHECK YOUR PROGRESS QUESTIONS

1 unsatisfied need
2 A product line is a group of products that are closely related.
3 Eliminating uneffective Ideas, and choosing a set of effective idea from a pool of idea.
4 High
5 to obtain the commercial success in the market.

4.9 EXERCISES AND QUESTIONS

1. Explain the different types of new products?

2. Discuss the new product development process?

3. Briefly discuss the consumer adoption process?

4.10 FURTHER READING

1. New product development: Managing and forecasting for strategic success, Robert J. Thomas, John willey & sons, Inc.

New product development: From initial idea to product management, March A. Annacchino, Elsevier (USA), 2003.

UNIT 5

PRODUCT PRICING

Notes

UNIT STUCTURE:

5.1 Unit Objectives

5.2 Introduction

5.3 Background of Pricing

5.4 Structure/Long term goals

5.5 Reiating pricing to value

5.6 Price Vs Quantity

5.7 Cost-Based Strategies

5.8 Demand-Based Strategies

5.9 Competition based strategies

5.10 Other Strategies: Situational and Value Pricing

5.11 Bundled Vs Unbundled pricing strategies

5.12 Know what is working and what is not by marketing feed back

5.13 Summary

5.14 Answers to check your progress questions

5.15 Exercises and Questions

5.16 Further Reading

5.1 UNIT OBJECTIVES

- Ø To know the background of pricing
- Ø To relate pricing to value
- Ø To learn cost, demand and competition based pricing strategies
- Ø To study other pricing strategies

5.2 INTRODUCTION

All for-profit organizations and many nonprofit organizations set prices on their goods or services. Whether the price is called *rent* (for an apartment), *tuition* (for education), *fare* (for travel), or *interest* (for borrowed money), the concept is the same. Throughout most of history, prices were set by negotiation between buyers and sellers. Setting one price for all buyers arose with the development of large-scale retailing at the

Notes

end of the nineteenth century, when Woolworth's and other stores followed a "strictly one-price policy" because they carried so many items and had so many employees.

Now, 100 years later, technology is taking us back to an era of negotiated pricing. The Internet, corporate networks, and wireless setups are linking people, machines, and companies around the globe, connecting sellers and buyers as never before. Web sites like Compare.Net and PriceScan.com allow buyers to compare products and prices quickly and easily. On-line auction sites like eBay.com and Onsale.com make it easy for buyers and sellers to negotiate prices on thousands of items. At the same time, new technologies are allowing sellers to collect detailed data about customers' buying habits, preferences—even spending limits—so they can tailor their products and prices.

Usually when one thinks about the very important element of marketing mix i.e. PRICING, what comes to the mind is the price tag on a product. The price of soap, toothpaste, refrigerator, television set, camera, shoes, shirts and many other products that we use in our daily lives.

It is true Pricing does concern all of these product categories and it should be looked upon with all of them in mind. But it should be emphasized here that the scope of pricing is not only these or similar product categories. The scope of pricing is much wider.

5.3 BACKGROUND OF PRICING

"So what's it worth to you?" This old adage, which has almost folklore status, clearly articulates the basic concept behind pricing of a product and service. As will be presented subsequently, there are numerous strategies and approaches to pricing, depending on the circumstances of the new product. One tenet should ring through: Pricing should reflect the perceived value in the eyes of the consumer, or what it is worth to the consumer! The pricing is a fundamental component to the successful execution of the business plan

All to often, product-marketing personnel make the mistake of setting pricing without clearly understanding the dynamics of the buying decision, the buyer's alternatives, and the value the buyer places on the goods and services at the time of purchase. In addition, the conditions that may lend validity to that value can change or shift, causing a price to be less reflective of the consumer's value placed on the product.

The key element in setting pricing is to understand the customer's value system and structure your package of values (the product) accordingly.

Notes

GM Pens International is the exclusive licensee of Reynolds in India

5.4 (EXTERNAL VERSUS INTERNAL) STRUCTURE/LONG-TERM GOALS

There are two facets to consider when setting pricing—the internal requirements for the organization and the external market price level. These two are opposing, because the internal corporate need for profit is placed in check by the external pricing limits the market has tolerance for (as shown in Figure 5-1).

A good starting point for a pricing exercise is to take the market price and determine the costs and overhead then see how the company can make money with the product at the particular market price level. For example, the pricing breakdown (see Figure 5-2) for a manufactured product shows a $100 price. The profit before provision for tax is at 9% of the sales price.

Check your progress

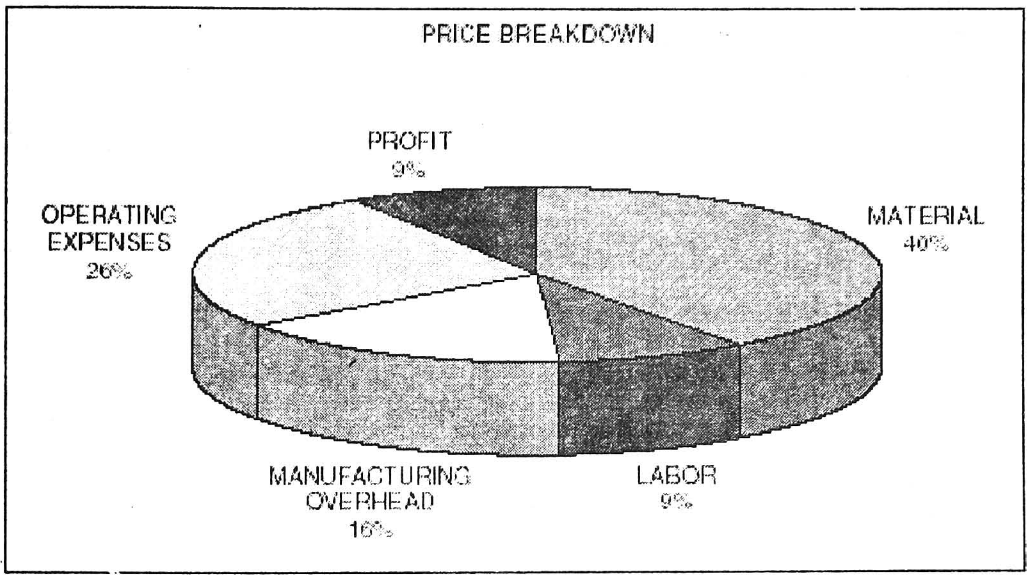
1. Which stage of NPD the pricing decision is taken ?

Can the ownership structure's requirements and profit motive be satisfied with 9% of sales? This is the internal orientation of pricing when the market sets the level. There are rare circumstances in which the manufacturer can dictate the price level in the vacuum of market pricing. This occurs where the manufacturer or service provider is a market leader; there are no tangible customer alternatives, and time, space, and venue circumstances work to the goods and services provider's advantage. In this case, albeit rare, the world is in fact beating a pathway to your door to buy that better mousetrap!

There is also the issue of the morality of pricing. Pricing should be an equitable and even exchange between the buyer and the seller. Profits realized in the transaction are generated from the firm's efficiency, know-how, skills, and ability to market. Price gouging and taking advantage of a buyer's no-alternative buying decision will generate bad will and eventually work against you. There are three basic, but differing, objectives in setting pricing. They are as follows:

Internal Vs External (Fig 5.1)

Notes



Pricing Break down (Fig 5-2)

A. Sales objectives

B. Profit objectives

C. Competitive objectives

The sales objective focuses on top-line bookings and shipment figures. It may factor in profit requirements or competitive pressures; however, its main focus is to generate volume through attractive pricing.

The profit objective's main focus is the profit for the corporation. It may factor in other elements; however, maximizing profits is the main goal here. The profit objective, if left unchecked, can wreak havoc on the reputation of the organization.

The competitive objective's main focus is beating the competition in the market place by offering the most attractive price for the goods and services. This as well as the sales objective, when taken solely, can have devastating effects on the organization.

A cadre of price strategies supports the pricing objectives. As a starting point, it is helpful to think of pricing in a triad. The three vertices of the triad are costs, demand, and competition, as illustrated in Figure 5-3. This triad formulates the basic

operating arena for pricing strategies and market pressures. From this, each of the strategies will be defined and reviewed.

Notes

5.5 RELATING PRICING TO VALUE

The process of relating pricing to the value the customer places on the product is similar to the value-engineering process when configuring the product. It is based on the ability of the company to understand the mindset of the customer, and to and to the entire package of values embodied in the product. As a starting point, let's examine the process in simplistic terms

5.3 PRICING TRIAD

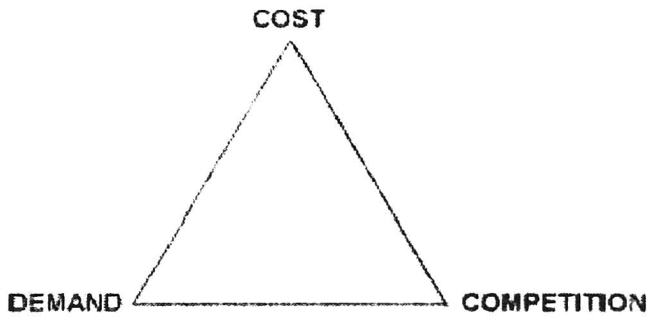


Figure 5-4 is a chart to assist in evaluating the features of the product and relating them to a price. *An additional value-pricing chart is available in the Tool Box for your specific use.* Each feature is listed on the left. The estimated price relating to each feature is established.

The product is then considered in total and a total price is established. Then each competitor is evaluated in a similar manner, this time factoring in the features, which may or may not be included (as denoted by the inserted X's).

Next, the positioning of the product, with respect to the competition, must be decided and established.

The overall complexion of the marketplace is now in place so that the pricing may be set.

5.6 PRICE VERSUS QUANTITY

The concept of a price/volume relationship, in which the volume increases if the price is lowered, has often been misapplied. In certain markets and under certain circumstances, this Methodology does

RELATING VALUE TO PRICING

FEATURE	PRICE EST	COMPETITOR A	COMPETITOR B	COMPETITOR C	POSITIONING	PRICE LEVEL SET
1		x		x		
2		x	x			
3			x	x		
4		x	x			
5				x		
6		x				
7				x		
8		x	x	x		
AS A PACKAGE						

Fig 5.4 Value pricing

Play out. However, it is not a universal concept, and indiscriminate use of it will only sacrifice gross margin on each unit sold, without generating additional sales.

If you are attempting to use this concept, it is imperative to understand the sales transaction thoroughly, first. Understand where and why the motivation for the exchange of funds for product takes place; otherwise you may draw the incorrect conclusions from someone else's history.

The other caveat to remember, when being tempted to drive volume by cutting price, is that price is only one component of the transaction. It cannot be the sole driver of a buying decision in a vacuum of other factors. Since the buying decision is not a single-dimensional issue, the single dimension of price reduction cannot necessarily drive huge volume increases.

5.7 COST-BASED STRATEGIES

The cost-based strategies consist of several approaches, as listed. They all ignore the demand side of the marketing equation and focus solely on internal needs.

A. Formula pricing

This is a strategy in which the cost elements or subcomponents are manipulated in a mathematical arrangement to generate a price large enough to absorb all other costs, transaction uncertainty, and provide for profit. It has pure internal focus and neglects market acceptance criteria. For example, if the product cost is $50 and the formula is a 3x multiple, the price is $150. Fifty dollars is the cost, and the balance of $100 is for other costs and profit.

Notes

Reebok Zigtec shoes use the slogan 'The energy drink for your feet'

Check your progress

2. Is the formula pricing suitable for all markets

B. Cost plus

The cost plus strategy is like a snowplow, in that it simply adds the required expense numbers and the required profit to the base cost to generate the price. This absorbs the uncertainty and provides for profit by decree. The premise is that the general level of consumption is stable, known, and understood. It also assumes that the market for the product is less sensitive to price.

Notes

Spice Telecom has introduced India's first 3D cell phone

C. Cost plus by intermediaries

This can be characterized by accumulating price as the product progresses through the sales channel. Each intermediary will get his or her "cut" on the way to the customer. The dynamics are channel dependent and involve "customary" markups. They can be different for different classes of product within the same sales channel.

D. Target return

The target returns approach seeks a specific return on the transaction, either in percentage or raw dollars. It is based on an assumed volume and quantity. The actual versus planned volume and quantity is a critical issue in securing the return. Overhead and other costs are absorbed across the volume (qty) of products sold and are a key factor in the calculation of the return.

Check your progress

3. Objective of Break Even Pricing is_____

E. Break even

Break even is a strategy, usually short term for healthy programs, in which the total revenue minus the total costs is zero, leaving no profit for the corporation. The caveat here is to thoroughly understand your entire costs so as not to have one product selling at the expense of another. There are numerous methods to calculate the break even base on absorbed costs; however, the basic philosophy is the same: move product, generate volume, and secure zero profit.

F. Experience curve

The experience curve strategy is based on two cost-related phenomena: economies of scale and the experience curve of the organization. Simply stated, the greater the volume of product manufactured by an organization, the greater the economies of scale. This is the application of the fixed costs over a larger volume base. In addition, other economies of scale can also be gained in procurement of goods, manufacturing setup, and cost reductions. This experience cost basis can then be applied to pricing in several ways, depending on the competitive circumstances.

The other component is the experience curve the organization takes with the increased volume. As the organization's rate of learning increases, the pathway to lower cost gets shorter. It is important to note that pure quantity of produced product does not in itself reduce costs; rather, it is the ability of the organization to absorb and learn from the volume that reduces cost.

Notes

G. Marginal cost price

The marginal-cost pricing strategy is based on a price that allows an organization to recover primary or direct costs as a minimum. It is not the total cost recovery and therefore should be used temporarily, and with care. As an example, the manufacturer may want to lead the experience curve with this type of pricing; however, they need to ensure the company does in fact progress down the learning curve.

5.8 DEMAND-BASED STRATEGIES

The demand-based strategies consist of several approaches. These strategies focus on a different perspective, that being of demand-side pricing.

A. Prestige pricing strategy

The prestige strategy is based on the premise that some product categories that can command higher prices can bring higher sales volumes. Particularly popular with safety items and purchases based on quality (e.g., food), the prestige strategy indicates to the buyer that increased price indicates increased value; in those categories, increased volumes are the result.

B. Price elasticity strategy

This strategy applies to products in which the price directly affects the volume of the product. There are three types of price elasticity strategies: elastic demand, inelastic demand, and unitary demand (see Figure 4-13).

The elastic demand behaves in a manner in which a small decrease in price generates a large increase in volume.

The inelastic demand behaves in a manner in which changes in price, either up or down, will not materially affect the volume.

The unitary demand is a more idealistic behavior in which a percentage change in price generates an equal percentage change in volume.

C. Price range strategy

Notes

The price range strategy can also be thought of as a class of product. For example, the Mercedes-Benz automobile is in the high-end, high-price category and is in demand by a few select consumers. It, however, has a price range for the consumer. The lower limit of the price range still sets the perceived quality level as high.

5.9 COMPETITION BASED STRATEGIES

The competition-based focus is an active pricing strategy that must be nimble and react to the rapidly changing marketplace. As competition changes their price, your company must alter your price or change the package of values. Sometimes the competition does not initiate a pricing action; they initiate a maneuver to gain market share. Your company needs to respond to maintain a presence in the game.

Check your progress

4. Which demand based strategy of pricing is directly affecting the volume of prod uct?

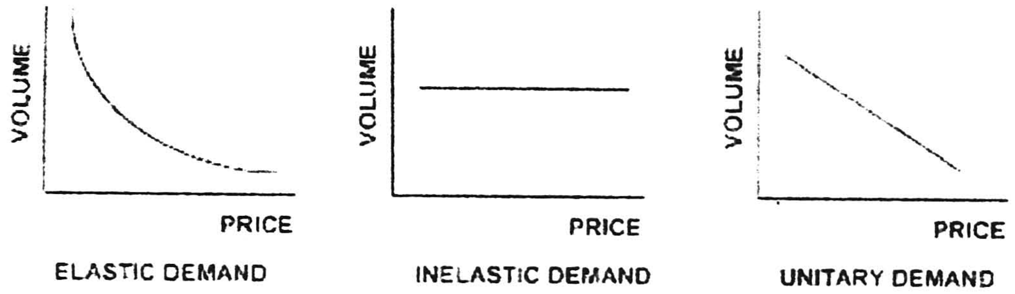


Fig 5.5 Demand Types

Figure 5-5 illustrates some of the possible dynamics of a typical situation. There are three competitors other than your company in the marketplace. Competitor #1 initiates an offering with X as the price. Competitor #2 responds with a revised price (X'), and you respond to the marketplace with (X"). Competitor #3 is non reactive in keeping price (X) during the interchange. In this way the market is dynamic and competitors are participating in pricing exercises based on competitive price levels.

Check your progress

5. Which pricing strategy delivers more than one prices for same product ?

5.10 OTHER STRATEGIES: SITUATIONAL AND VALUE PRICING

There are other pricing strategies that are situation specific and are based on value, which are summarized as follows:

A. New product introductions

B. Pricing when intangibles are important

C. Pricing in oligopolies

D. Pricing when buying is habitual

E. Pricing to reflect buyer-behavior attitudes

These are basically offshoots or temporary applications of the previously discussed examples in order to gain advantage in certain situations.

Whatever the strategy or for whatever the goal, pricing must reflect value to the customer and allow for profit to the corporation. It is therefore a key component to the business plan and must be well considered.

Notes

5.11 BUNDLED VERSUS UNBUNDLED PRICING STRATEGIES

The other consideration in pricing is the use of bundled and unbundled pricing. In this case the package of values can be adjusted to suit the market, by including collateral goods and services with the product to make the entire package more appealing to the customer.

Procter & Gamble has launched an exclusive virtual club house for men called "Man of the House"

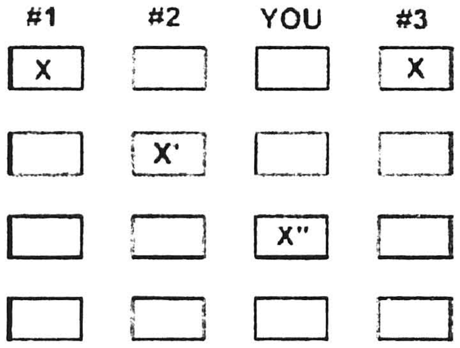


Fig 5.6 Competition pricing

These can be very popular and very successful as consumers begin to examine total installed costs in which bundling can lower their outlay for the entire package of goods and services.

5.12 SCRUTINIZE PACKAGE OF VALUES CAREFULLY; KNOW WHAT IS WORKING AND WHAT IS NOT BY MARKET FEEDBACK

One final note about pricing: Each assumption and each plan may appear flawless on paper; however, it must be verified in the field with actual transactions under the planned or assumed scenarios. This adds credibility to the assumptions and prevents marching down a path that will not yield results. Get early feedback as a point of reference and monitor periodically for any required changes.

5.13 SUMMARY

Pricing is such an important element of marketing mix that it should not only be looked upon as a creative tool for marketing tangible products, but should also be considered for intangible products and services. Price is also one of the most flexible elements: It can be changed quickly, unlike product features and channel commitments. Although price competition is a major problem facing companies, many do not handle pricing well. The

most common mistakes are these: Pricing is too cost-oriented; price is not revised often enough to capitalize on market changes; price is set independent of the rest of the marketing mix rather than as an intrinsic element of market-positioning strategy; and price is not varied enough for different product items, market segments, and purchase occasions. This chapter describes pricing backgrounds and various pricing strategies.

Notes

5.14 Answers to check your progress questions

1 Commercialization stage.
2 No.
3 to secure the organization
4 Price elasticity strategy.
5 Price Rance Strategy (High limit & Low limit)

5.15 EXERCISES AND QUESTIONS

1). Discuss the various pricing strategies available to the Indian marketer.

2) Analyze various pricing strategies with suitable examples in FMCG?

5.16 FURTHER READINGS

1. *Product Management in India*, Ramanuj Majumdar.

2. *Pricing - Policies and Procedures,* Neshim Hanna and H. Robert Dodge.

UNIT 6
PRODUCT DIFFERENTIATION AND POSITIONING

UNIT STRUTURE

6.1 Unit Objectives

6.2 Introduction

6.3 Product Differentiation

6.4 Service Differentiation

6.5 Personnel Differentiation

6.6 Channel Differentiation

6.7 Image Differentiation

6.8 Positioning Strategies

6.9 Major Positioning Errors

6.10 Summary

6.11 Answers to check your progress questions.

6.12 Exercises and Questions

6.13 Further Reading

6.1 UNIT OBJECTIVES

- To know how to differentiate and positioning a product
- To learn different positioning strategies
- To understand major positioning errors.

6.2 INTRODUCTION

Companies such as Hewlett-Packard and Priceline.com invest precious resources to develop and then shepherd their new products through the product life cycle. Yet in today's highly competitive global marketplace, a product will not survive—let alone thrive—without some distinct competitive difference that sets it apart from every rival product. This is why smart companies rely on **differentiation,** the act of designing a set of meaningful differences to distinguish the company's offering from competitors' offerings. Here we examine how a company can differentiate its market offering along five dimensions: product, services, personnel, channel, and image.

The term product (brand) **positioning** refers to the place a product occupies in a given market. This depends on market structure, competitive position of the firm, and the concepts of substitution and competition among products. Product Image suggests a new perspective on product positioning, like consumers' perceptions concerning the place a product occupies in a given market.

The word positioning encompasses most of the common meaning of the word position, position as a place (what place does the product occupy in its market?), a rank (how does the product fare against its competitors in various evaluative dimensions?) and a mental attitude (what are consumer attitudes the cognitive, effective, and action tendencies) toward the given product. Hence, product positioning should be assessed by measuring consumers' or organizational buyers perceptions and preference for the product in relation to its competitors (both branded and generic).

Check your progress

1. What do you mean by posi tioning ?

Product	Services	Personnel	Channel	Image
Form	Ordering ease	Competence	Coverage	Symbols
Features	Delivery	Courtesy	Expertise	Media
Performance	Installation	Credibility	Performance	Atmosphere
Conformance	Customer training	Reliability		Events
Durability	Customer consulting	Responsiveness		
Reliability	Maintenance and repair	Communication		
Repairability	Miscellaneous			
Style				
Design				

Differentiation Variables

6.3 PRODUCT DIFFERENTIATION

Physical products vary in their potential for differentiation. At one extreme we find products that allow little variation: chicken, steel, aspirin. Yet even here, some differentiation is possible: Starbucks brands its coffee, and P&G offers several brands of laundry detergent, each with a separate brand identity. At the other extreme are products that are capable of high differentiation, such as automobiles and furniture. Here the seller faces an abundance of design parameters, including:

. ***Form***. Many products can be differentiated in *form*—the size, shape, or physical structure of a product. Consider the many possible forms taken by products such as aspirin. Although aspirin is essentially a commodity, it can be differentiated by dosage size, shape, coating, and action time.

. ***Features***. *Features* are the characteristics that supplement the product's basic function. Marketers start by asking recent buyers about additional features that would improve satisfaction, then determining which would be profitable to add, given the potential market, cost, and price.

Notes

'Think different' is the baseline of Apple computers

. ***Performance quality***. *Performance quality* is the level at which the product's primary characteristics operate. The Strategic Planning Institute found a significantly positive correlation between relative product quality and return on investment. Yet there are diminishing returns to higher performance quality, so marketers must choose a level suited to the target market and rivals' performance levels.

Conformance quality. Buyers expect products to have a high *conformance quality*, which is the degree to which all of the produced units are identical and meet the promised specifications. The problem with low conformance quality is that the product will disappoint some buyers.

Check your progress

2. ________dimensic of product different parameters get most important.

. ***Durability***. *Durability*, a measure of the product's expected operating life under natural or stressful conditions, is important for products such as vehicles and kitchen appliances. However, the extra price must not be excessive, and the product must not be subject to rapid technological obsolescence.

. ***Reliability***. Buyers normally will pay a premium for high *reliability*, a measure of the probability that a product will not malfunction or fail within a specified time period. Maytag, which manufactures major home appliances, has an outstanding reputation for creating reliable appliances.

. ***Reparability***. Buyers prefer products that are easy to repair. *Reparability* is a measure of the ease of fixing a product when it malfunctions or fails. An automobile made with standard parts that are easily replaced has high reparability. Ideal reparability would exist if users could fix the product themselves with little cost or time.

. ***Style***. *Style* describes the product's look and feel to the buyer. Buyers are normally willing to pay a premium for products that are attractively styled. Aesthetics have played a key role in such brands as Absolut vodka, Apple computers, Montblanc pens, Godiva chocolate, and Harley-Davidson motorcycles. Style has the advantage of creating distinctiveness that is difficult to copy; however, strong style does not always mean high performance.

Notes

Cafe Coffee Day is a division of Amalgamated Bean Coffee Trading Co limted

. ***Design***. As competition intensifies, *design* offers a potent way to differentiate and position a company's products and services. Design is the integrating force that incorporates all of the qualities just discussed; this means the designer has to figure out how much to invest in form, feature development, performance, conformance, durability, reliability, reparability, and style. To the company, a well-designed product is one that is easy to manufacture and distribute. To the customer, a well-designed product is one that is pleasant to look at and easy to open, install, use, repair, and dispose of. The designer has to take all of these factors into account.

6.4 SERVICES DIFFERENTIATION

When the physical product cannot be differentiated easily, the key to competitive success may lie in adding valued services and improving their quality. The main service differentiators are:

. ***Ordering ease*** refers to how easy it is for the customer to place an order with the company. Baxter Healthcare has eased the ordering process by supplying hospitals with computers through which they send orders directly to Baxter; consumers can now order and receive groceries without going to the supermarket by using Web based services such as Peapod and Net Grocer.

. ***Delivery*** refers to how well the product or service is delivered to the customer, covering speed, accuracy, and customer care. Deluxe Check Printers, Inc., has built an impressive reputation for shipping out its checks one day after receiving an order—without being late once in 18 years.

. ***Installation*** refers to the work done to make a product operational in its planned location. Buyers of heavy equipment expect good installation service. Differentiation by installation is particularly important for companies that offer complex products such as computers.

Customer training refers to how the customer's employees are trained to use the vendor's equipment properly and efficiently. General Electric not only sells and installs expensive X-ray equipment in hospitals, but also gives extensive training to users of this equipment.

. ***Customer consulting*** refers to data, information systems, and advising services that the seller offers to buyers. For example, the Rite Aid drugstore chain's communications program, called the Vitamin Institute, provides customers with research so they can make more educated judgments and feel comfortable asking for

help. On the Web, Rite Aid has teamed with drugstore.com to offer even more health-related information.

. ***Maintenance and repair*** describes the service program for helping customers keep purchased products in good working order, an important consideration for many products.

Notes

6.5 PERSONNEL DIFFERENTIATION

Companies can gain a strong competitive advantage through having better-trained people. Singapore Airlines enjoys an excellent reputation in large part because of its flight attendants. The McDonald's people are courteous, the IBM people are professional, and the Disney people are upbeat. The sales forces of such companies as General Electric, Cisco, Frito-Lay, Northwestern Mutual Life, and Pfizer enjoy an excellent reputation.35 Well-trained personnel exhibit six characteristics: competence, courtesy, credibility, reliability, responsiveness, and communication.

Check your progress

3. Is there any relation between personal d ifferentiation and brand image ?

6.6 CHANNEL DIFFERENTIATION

Companies can achieve competitive advantage through the way they design their distribution channels' coverage, expertise, and performance. Caterpillar's success in the construction-equipment industry is based partly on superior channel development. Its dealers are found in more locations, are better trained, and perform more reliably than competitors' dealers. Dell Computers has also distinguished itself by developing and managing superior direct marketing channels using telephone and Internet sales.

6.7 IMAGE DIFFERENTIATION

Buyers respond differently to company and brand images. *Identity* comprises the ways that a company aims to identify or position itself or its product, whereas *image* is the way the public perceives the company or its products. Image is affected by many factors beyond the company's control. For example, Nike's mainstream popularity turns off 12-to-24-year-olds, who prefers Air walk and other alternative brands that convey a more extreme sports image. An effective image establishes the product's character and value proposition; it conveys this character in a distinctive way; and it delivers emotional power beyond a mental image. For the image to work, it must be conveyed through every available communication vehicle and brand contact, including logos, media, and special events.

6.8 POSITIONING STRATEGIES

Notes

Each firm needs to develop a distinctive positioning for its market offering. **Positioning** is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind. The end result of positioning is the successful creation of a market-focused value proposition, a cogent reason why the target market should buy the product. The goal is to locate the brand in the minds of consumers to maximize the potential benefit to the firm. The result of positioning is the successful creation of a *customer focused value proposition*, a cogent reason why the target market should buy the product.

Attribute Positioning:

A company positions itself an "attributes, such as size or number of years in existence. Disneyland can advertise itself as the "largest theme park" in the world.

Check your progress

4. Give an ex ample for user position & com petitor position

Benefit Positioning:

The product is positioned as the leader in a certain benefit.

Use or Application Positioning:

Positioning the product as best for some use or application.

User Positioning:

Positioning the product as best for some user group.

Competitor Positioning:

The product claims to be better in some way than "a named competitor

Product Category Positioning:

The product is positioned as the leader in a certain product category.

Quality or Price Positioning:

The product is positioned as offering the best value. Ex: "Best value for money"

6.9 MAJOR POSITIONING ERRORS

Under Positioning:

Some companies discover that buyers have only *a vague idea of the brand.* The brand is seen as another entry in crowded market place.

When Pepsi introduced its "clear crystal Pepsi" in 1993, customers were distinctly un-impressed. They didn't see **"clarity"** as an important benefit in a soft drink.

Notes

Over-Positioning:

Buyers may have too narrow an image of the brand. Thus a customer might think that diamond rings at *tiffany* start at $5,000 when in fact tiffany now offers affordable diamond rings starting at $1,000.

Think Small is the baseline of Volkswagen

Confused Positioning:

Buyers might have a confused image of the brand resulting from the company's making too many claims or changing the brand positioning too frequently.

When Stephen jobs sleek powerful Next desktop computers which was first positioned for students, then for engineers and then for business people, all unsuccessfully.

Check your progress

5. What are the consumer's reaction towards over-positionin

Doubtful Positioning:

Buyers may find it *hard to believe the claims* in view of the product's features, price or manufacturer. When General Motors (GM) introduced "Cimarron", it was positioned the car as the luxury competitor with BMW, Mercedes. Al though the car was positioned as *"more for more"*, but the customers saw it as *"less for more"*

6.10 SUMMARY

In the competitive global marketplace, the key to competitive advantage is differentiation. Product, services, personnel, channel, and image can differentiate a market offering. A difference is worth establishing to the extent that it is important, distinctive, superior, preemptive, affordable, and profitable. Positioning is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind. Many marketers advocate positioning according to a single product benefit, although double- and triple-benefit positioning can be successful if used carefully. . It is necessary to 'remember at this stage that product positioning one of the crucial decisions that marketing managers take. As it determines the several other offers from the company, and depends on the consumer perceptions thy, product positions cannot be changed frequently. Hence, the positioning decision requires fairly high level of involvement of the managers. While positioning a brand care should be taken as what details need to be communicated for effective positioning of the brand more so when you are the first to hit the prospects mind. Besides, positioning

remarkably helps as an effective tool for market segmentation and product differentiations. Ingredients of leadership positioning are also touched upon for better understanding.

6.11 Answers to check your progress questions.

1 The brand or product is getting an unique position in consumer's mind.
2 Reliability & Durability
3 Yes.
4 User position : Fastract (youth segment) Competitior position : Boost & Complan.
5 Very rich loyal consumers only will retain our product, others switch over to another products.

6.12 EXERCISES AND QUESTIONS

1) How do you differentiate product, service, channel, personnel and image?

2) Discuss various positioning strategies?

3) Explain major positioning errors?

6.13 FURTHER READING

1) Lilien, G. L., and A Rangaswamy (1998), *Marketing Engineering: Computer Assisted Marketing Analysis and Planning.* Adison-Wesley, Reading, Massachustts.

2) Ries Al and J. Trout, (1981), *Positioning: The Battlefor Your Mind,* McGraw-Hill, New York

3) S.A. Chunawalla- Product Management (Revised edition 1999). Himalaya Publication.

4) Ramanuj Majumdar- Product Management in India - Second edition, PHI-Delhi.

UNIT 7
BRAND MANAGEMENT

7.1 Introduction
7.2 Brand - History
7.3 Brand – Definition
7.4 Branding - Meaning
7.5 Brand – Functions
7.6 Brand – Name Selection
7.7 Brand – Principles
7.8 Brand – Management
7.9 Brand – Elements
7.10 Summary
7.11 Answers of Check your progress questions
7.12 Self Assessment Questions
7.13 Further Readings

Notes

LEARNING OBJECTIVES

- Know what is a Brand? How branding concept came into existence?
- Know what functions and principles of Brand Management.
- Know how the brand system works
- Know how the brand principles are evolved
- Know what brand elements are

7.1 BRANDING – INTRODUCTION

Brands have become a major player in modern society. In fact they are everywhere. They penetrate all spheres of our life: economic, social, cultural, sporting, even religion. Because of this pervasiveness they have come under growing criticism

A rose by another name will smell the same - Shakespeare

"If this business were to be split up, I would be glad to take the brands, trademarks, and goodwill, and you could have all the bricks and mortar – and I would fare better than you"

- John Stuart, President of Quaker Oats Company

7.2 BRAND HISTORY

The word brand comes from the Old Norse brand, meaning to burn, and from these origins made its way into Anglo-Saxon. It was of course by burning that early man stamped ownership on his livestock, and with the development of trade buyers would use brands as a means of distinguishing between the cattle of one farmer and

another. A farmer with a particularly good reputation for the quality of his animals would find his brand much sought after; while the brands of farmers with a lesser reputation were to be avoided or treated with caution. Thus the utility of brands as a guide to choice was established, a role that has remained unchanged to the present day. Some of the earliest manufactured goods in mass production were clay pots, the remains of which can be found in great abundance around the Mediterranean region, particularly in the ancient civilizations of Etruria, Greece and Rome. There is considerable evidence among these remains of the use of brands, which in their earliest form were the potter's mark. A potter would identify his pots by putting his thumb print into the wet clay on the bottom of the pot or by making his mark: a fish, a star or cross, for example. From this we can safely say that symbols (rather than initials or names) were the earliest visual form of brands. In Ancient Rome, principles of commercial law developed that acknowledged the origin and title of potters' marks, but this did not deter makers of inferior pots from imitating the marks of well known makers in order to dupe the public.

Notes

Palo brand name is derived from the word 'Polar" suggesting coolness

In the British Museum there are even examples of imitation Roman pottery bearing imitation Roman marks, which were made in Belgium and exported to Britain in the first century AD. Thus as trade followed the flag – or Roman Eagle – so the practice of unlawful imitation lurked close behind, a practice that remains commonplace despite the strictures of our modern, highly developed legal systems.

Check your progress

1. What is brand mark?

7.3 BRAND - PROLOGUE

Why Brand?

What makes some service/products sell more than others?

Why people prefer products which are branded rather than an unbranded one?

The reason behind choosing branded one rather than unbranded are:

1. Trust or consuemer confidence towards the brand
2. Quality and Functionality
3. Meeting Standards
4. Uniqueness
5. Appeal
6. Trend
7. Cost
8. Design and the list goes on.

Brand:

1. A trademark or distinctive name identifying a product or a manufacturer.
2. A product line so identified: a popular brand of soap.
3. A distinctive category; a particular kind:

Notes

American Marketing Association defines a Brand as "a name, term, sign, symbol or design or combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from the competitors". Simply, a brand is a strategy to add dimension to a product or service, so as to differentiate it from similar product or service of others.

A brand is much more than just a logo or an advertisement; it is everything about the product or service. A brand is the promise, the big idea, and the expectations that reside in each patrons mind about a product, service or company. People fall in love with brands, trust them, develop strong loyalties to them, buy them and believe in their superiority. The brand is the shorthand. It stands for something.

The brand identity is the visual and verbal expression of the brand; it's the personality of the brand. A brand is much more than just a logo or an advertisement; it is everything about the product or service. Branding isn't always about the logo, in fact; it's much more than a logo. A brand can be other elements as well a brand is a promise to the customer.

A strong brand is an asset to its company. So, firms are ready to pay hundreds of crores just to acquire a strong brand name. The coca cola when came to India, paid Rs.175 Crores to buy the then prevailing strong Indian beverage brands of 'Thumps Up' , 'Limca' & 'Goldspot'. Hindustan Lever Limited paid Rs.29 crores to 'Lakhme' cosmetic company for their two plants producing lotions and creams; but has to pay Rs.110 crores to acquire their brand name 'Lakhme' .

It is simpler to purchase a brand name than to build one which require more time and money. Brands simplify the decision making of the consumer. In the ever changing marketing world of today, a professional marketer should have a ability to create, maintain and enhance the product value by a strong brand management strategy.

A product is what is manufactured in a factory, but what the consumer actually buys is a brand. Different companies may make the same product, but not the same brand. A brand name adds value to a product to which it is attached. That is why branded products are sold at a higher price than the unbranded products. 'Adidas Shoes' cost more because they have the Adidas brand. A loyal consumer never waver to pay more for his trusted brand, because he has a physical and emotional attachment to his brand; because he believes his trusted brand is reliable, durable and has quality.

What is brand?

Remarkably, one of the hottest points of disagreement between experts is the definition of a brand. Each expert comes up with his or her own definition, or nuance to the definition. The problem gets more acute when it comes to measurement: how should one measure the strength of a brand? What limited numbers of indicators should one use to evaluate what is commonly called *brand equity?* In addition there is a

major schism between two paradigms. One is customer-based and focuses exclusively on the relationship customers have with the brand (from total indifference to attachment, loyalty, and willingness to buy and re-buy based on beliefs of superiority and evoked emotions). The other aims at producing measures in Dollars, Euros, Rupees or Yen.

Notes

Haggen-Dazs is the world's number one Gourmet ice-cream brand

Customer-based definitions

The financial approach measures brand value by isolating the net additional cash flows created by the brand. These additional cash flows are the result of customers' willingness to buy one brand more than its competitors', even when another brand is cheaper. Why then do customers want to pay more? Because of the beliefs and bonds that are created over time in their minds through the marketing of the brand. In brief, customer equity is the preamble of financial equity. Brands have financial value *because* they have created assets in the minds and hearts of customers, distributors, prescribers, opinion leaders. These assets are brand awareness, beliefs of exclusivity and superiority of some valued benefit, and emotional bonding. This is what is expressed in the now classic definition of a brand: 'a brand is a set of mental associations, held by the consumer, which add to the perceived value of a product or service'. These associations should be unique (exclusivity), strong (saliency) and positive (desirable). This definition focuses on the gain in perceived value brought by the brand. How do consumers' evaluations of a car change when they know it is a Volkswagen, a Peugeot or a Toyota? Implicitly, in this definition the product itself is left out of the scope of the brand: 'brand' is the set of added perceptions. As a result brand management is seen as mostly a communication task. This is incorrect. Modern brand management starts with the product and service as the prime vector of perceived value, while communication is there to structure, to orient tangible perceptions and to add intangible ones

Brands as conditional asset

The financial perspective helps us in defining brands and brand equity? Financiers and accountants have realised the value of brands. How does the financial perspective help us in defining brands and brand equity?

First, brands are *intangible assets*, posted eventually in the balance sheet as one of several types of intangible asset (a category that also includes patents, databases and the like).

Second, brands are *conditional assets*. This is a key point so far overlooked. An asset is an element that is able to produce benefits over a long period of time. Why are brands conditional assets? Because, in order to deliver their benefits, their financial value, they need to work in conjunction with other material assets such as production facilities. There are no brands without products or services to carry them. This will have great consequences for the method of measuring financial value. For now, this reminds us that some humility is required. .Although many people claim that

brands are all and everything, brands cannot exist without a support (product or service). This product and service becomes effectively an embodiment of the brand, that by which the brand becomes real. As such it is a main source of brand evaluation. Does it produce high or low satisfaction? Brand management starts with creating products, services and/or places that embody the brand. Interestingly, the legal approach to trademarks and brands also insists on their conditional nature. One should never use the brand name as a noun, but as an adjective attached to a name, as for instance with a Volvo car, not a Volvo.

Notes

The legal perspective

An internationally agreed legal definition for brands does exist: 'a sign or set of signs certifying the origin of a product or service and differentiating it from the competition'. Historically, brands were created to defend producers from theft. A cattle brand, a sign burned into the animal's hide, identified the owner and made it apparent if the animal had been stolen. 'Brands' or trademarks also identified the source of the olive oil or wine contained in ancient Greek amphora's, and created value in the eyes of the buyers by building a reputation for the producer or distributor of the oil or wine. A key point in this legal definition is that trademarks have a 'birthday' – their registration day. From that day they become a property, which needs to be defended against infringements and counterfeiting.

Check your progress

2. What is trade mark ?

Although the legal approach is most useful for defending the company against copies of its products, it should not become the basis of brand management. Contrary to what the legal definition asserts, a brand is not born but made. It takes time to create a brand, even though we talk about launching brands. In fact this means launching a product or service. Eventually it may become a brand, and it can also cease to be one. What makes a brand recognisable? When do we know if a name has reached the status of a brand? For us, in essence, *a brand is a name that influences buyers,* becoming a purchase criterion.

A brand lives in the customer's perception. On the one end of the continuum some products like comb are bought as commodities with little or no brand difference. On the other end of the continuum you find brand cult, customer addicted and intoxicated by brands. Branding is like an iceberg, existing mostly below the surface.

The branding challenge is to develop a deep set of positive associations for the brand. Marketers must decide at which level(s) to anchor the brand's identity. One mistake would be to promote only attributes. First, buyers are not as interested in attributes as they are in benefits. Second, competitors can easily copy attributes. Third, today's attributes may become less desirable tomorrow. Ultimately, a brand's most enduring meanings are its values, culture, and personality, which define the brand's essence. Smart firms therefore craft strategies that do not dilute the brand values and personality built up over the years.

A brand is a name that influences Buyers

Notes

This definition captures the essence of a brand: a name with power to influence buyers. Of course, it is not a question of the choice of the name itself. Certainly a good name helps: that is, one that is easily pronounceable around the world and spontaneously evokes desirable associations. But what really makes a name become a brand are the saliency, differentiability, intensity and trust attached to these associations. Are the benefits the name evokes (a) salient, (b) exclusive and (c) trusted?

We live in an attention economy: there is so much choice and opacity that consumer cannot spend their time comparing before they make a choice. They have no time and even if they did, they cannot be certain of being able to determine the right product or service for them. Brands must convey certitude, trust. They are a time and risk reducer. In fact where there is no risk there is no brand. The perceived risk could be economic (linked to price), functional (linked to performance), experiential, psychological (linked to our self-concept), or social (linked to our social image). This is why it takes time to build the saliency that is part of brand awareness, and this trust (trusted beliefs about the brand's unique benefits).

Check your progress

3. Brand is re ducing _______ of customer.

Brand power to influence buyers relies on representations and relationships. A representation is a system of mental associations. We stress the word 'system', for these associations are interconnected. They are in a network, so that acting on one impacts some others. These associations (also called brand image) cover the following aspects:

- What is the brand territory (perceived competence, typical products or services, specific know-how)?
- What is its level of quality (low, middle, premium, luxury)?
- What are its qualities?
- What is its most discriminating quality or benefit (also called perceived positioning)?
- What typical buyer does the brand evoke?
- What is the brand personality and brand imagery?

Beyond mental associations, the power of a name is also due to the specific nature of the emotional relationships it develops. A brand, it could be said, is an attitude of non-indifference knitted into consumers' hearts. This attitude goes from emotional resonance to liking, belonging to the evoked set or consideration set, preference, attachment, advocacy, to fanaticism. Finally, designs, patents and rights are of course a key asset: they provide a competitive advantage over a period of time. In short, a brand exists when it has acquired power to influence the market. This acquisition takes time. The time span tends to be short in the case of online brands, fashion brands and brands for teenagers, but longer for, for example, car brands and corporate brands. This power can be lost, if the brand has been mismanaged in comparison with the competition. Even though the brand will still have

brand awareness, image and market shares, it might not influence the market any more. People and distributors may buy because of price only, not because they are conscious of any exclusive benefit from the brand. What makes a name acquire the power of a brand is the product or service, together with the people at points of contact with the market, the price, the places, the communication – all the sources of cumulative brand experience. This is why one should speak of brands as living systems made up of three poles: products or services,name and concept.(SeeFigure1.1.)

The Brand System:

The Brand System Consists of three important elements. They are viz.

1. The Brand Concepts
2. Brand Names and Symbols and Logs ie. Semiotic invariants
3. Product or Service Experiences

The Brand System incorporates all the three and deliver a brand image to the users of the brand. The brand system is the one through which the whole brand is perceived by the costomers.

7.4 WHAT IS BRANDING?

Branding is

a process

a tool

a strategy

an orientation

Branding as an on going process helps establish and builds a long term symbiotic association between the marketers and the consumer in response to the changing needs and wants by way of product offerings for mutually beneficial arrangement.

Branding is also viewed as an excellent and reliable promotional tool for creating mass awareness, for projecting and positioning a product in the minds of target consumers the authentic product attributes and the satisfaction they would derive by adoption. Despite the availability of equally satisfying products in the market place the satisfied customer with a specific brand would not want nor make an attempt to spend additional effort to evaluate the other alternative choices in the category.

Branding helps in easy identification thus differentiates and stands out apart from other competitive products in the category and thereby developing a close affinity and linkage with target customer group. This way Branding comes handy to the marketer as a

weapon for clear distinction of his product more so when the product nature is such that it would be difficult to distinguish in terms of visible features as in case of services and other products like cement, fertilizer etc. which are generally perceived as commodities. This way branding is used strategically for strategy formulation for the target groups in response to their changing taste and preferences by way of developing and offering customized products backed with effective communication and supported by visuals to match and keep pace with the customer life styles and expectations.

Notes

7Up was named by its inventor after rejecting the first six names that were offered

Brand creation and brand building by the marketer's should be a well defined and conscious task keeping the consumer on the top of the mind: Branding always facilitates easy and quick decision making in purchase process. Branding also attracts customer pull and helps retain customers to its fold over their rivals offerings for quality and personal satisfaction and develop loyalties for the same. From the marketers angle strong brands does help in building strong foundation/premise for the promotion of additional products.

7.5 FUNCTIONS OF BRAND

Table 1.5 The functions of the brand for the consumer

Function	Consumer benefit
Identification	To be clearly seen, to quickly identify the sought-after products, to structure the shelf perception.
Practicality	To allow savings of time and energy through identical repurchasing and loyalty.
Guarantee	To be sure of finding the same quality no matter where or when you buy the product or service
Optimisation	To be sure of buying the best product in its category, the best performer for a particular purpose.
Badge	To have confirmation of your self-image or the image that you present to others.
Continuity	Satisfaction created by a relationship of familiarity and intimacy with the brand that you have been consuming for years.
Hedonistic	Enchantment linked to the attractiveness of the brand, to its logo, to its communication and its experiential rewards.
Ethical	Satisfaction linked to the responsible behaviour of the brand in its relationship with society (ecology, employment, citizenship, advertising which doesn't shock).

The eight functions of a brand are presented in Table 1.5. The first two are mechanical and concern the essence of the brand; that is, to function as a recognised symbol in order to facilitate choice and to gain time. The following three functions reduce the perceived risk. The last three have a more pleasurable side to them. Ethics show that buyers are expecting, more and more, respon-sible behaviour from their brands. Many Swedish consumers still refuse Nestle'sproducts due to the issue of

selling Nestle's baby milk to poor mothers in Africa. These functions are neither laws nor dues, nor are they automatic; they must be defended at all times. Only a few brands are successful in each market thanks to their supporting investments in quality, R&D, productivity, communication and research in order to better understand foreseeable changes in demand.

Notes

7.6 BRAND NAME

If you carefully observe that every product in tine market place is identifiable by a specific name given by its maker called the brand naive. Thus identifying and selecting an appropriate brand name is the first and foremost crucial step in managing a product. Tine decision of branding a new product is like naming a new-born child. it basically servers to easy identification of the firms offering. You must have come across that a brand could be a word, term-sign or symbol that identifies and distinguishes one product from another for example, it could be-

a word with meaning not necessarily related to the product it represents viz., Amrutanjan, Ortern, Iced & White, Sprite etc.

• • • the name of the manufacturers of the product viz., Nilkamal, Bata, HMT, etc.

a combination of numerical and alphabets, viz. Elle-18, CBZ-150 or a word whose a meaning suggests some functions, or quality of the product for example brand names like Surya (lighting) Sleepwel (mattresses) Tips & Toes (Nail Polish) D-cold (Medicine for cold & cough) etc. indirectly indicate the use of the product.

Check your progress

4. Is the brand name (word) meaningful is mandatory ?

A brand name may manipulate the buyer's perception about the product. Brand names are often conceived and used in establishing an overall product concept. Occasionally, strong brand name becomes the ;generic name of the product for instance brands like Surf, Dalda & Tempo used to be synonymous with detergents, vegetable oil and midi trucks respectively. A good brand name has a mnemonic quality, something that stays in the buyers mind and even derive some recognition and status from using certain brands. Branding always plays a major role in communication. Apart from identifying the marketer! Producer of the product branding assures the buyer of some consistency and quality standards leading to repeat purchases. It is essential and also mandatory for the marketer/ producer to register brand names under the Indian Trade and merchandise act for protection and imitation.

7.7 PRINCIPLES OF BRANDING

Scot Bedbury, lays down the following principles for a modern twenty first century branding.

1. Great brands should establish enduring customer relationships (Air India with Maharaja Welcome symbol is one of the oldest brands still admired by many passengers)

Notes

he first PSU to come up with the concept of branded fuel is BPCL Bharat Petrolieum Corporation Limited)

Check your progress

5. Brand can classify based on market area as ___________

2. All brands need good parents. (Hindustan lever spends huge sums for creating, acquiring and nurturing its various brands.)

3. Brands should have relevance, simplicity and humanity. (LIC Insurance Brand with protective hand symbol is one of the simple, relevant and a human touch brands.

4. Big is no excuse for being bad. (Doordarshan though an enduring top ten brands, its product content and presentation is not superior to many private channels).

5. Everything matters: ('Reliance' once conducted its shareholders meeting in a big football ground just to accommodate all its shareholders, which is a record).

More than that, most brands don't know who they are, what they have been and where they are going. They have to know, who, what and where to become strong brands.

Kevin Lane Keller, another brand guru, in his 'The brand Report Card' (Harvard Business Review, January, 2000) also like Scot Bedbury lays stress on brands relevance and consistency. But gives equal importance to its equity. He tells, world's top brands have some common attributes and they play a vital role in their promotion.

1. All the top brands are consistent. (No conflicting messages in their marketing programmes).

2. The brand managers of these top brands understand what these brand means to their consumers. (Brand managers should know the likes and dislikes of their consumers)

3. All these top brands stay relevant. (These top brands are in line with current trends and market conditions).

4. Pricing strategy of these top brands is based on consumer's perceptions of value (Optimizing the price and quality to meet customer expectations).

5. Top brands are properly positioned (Parity with its competitor).

6. Brand portfolio and hierarchy of these top brands makes sense. (A seamless umbrella for all the brands in the company's portfolio.

7. All these top brands are given proper and sustained support. (R & D and marketing programmes fully in support with the success of these brands).

8. The company of these brands monitors sources of brand equity. (Top brands create a brand charter to monitor and preserve the brand equity).

7.8 BRAND MANAGEMENT

Brand Management discipline provide three key functions:

- **Planning coordinated launch and delivery of brand messages,** both internally and externally, integrating with business and marketing plans to optimize impact

and cost-effectiveness-planning not just individual projects, but optimizing the overall priority, mix and rollout of projects to best connect with the customer

• **Actively cultivating brand understanding,** adoption and ability among employees and others who will be creating the customer's brand experience - providing them with brand training, assets and tools so they can consistently deliver "on-brand" communications, personal interactions and products

• **Setting up a system and tools for monitoring and assessing the brand's health,** so that resulting insights can be used not only to maintain brand alignment, but also to evolve the brand strategy, identity, experience and management over time - allowing brand managers to move beyond mere consistency and build a brand that can adapt and flourish in the marketplace.

These functions make brand management an essential discipline, both for rolling out new brands and for managing existing brands to best effect. It is the guiding hand that promotes the brand, protects its integrity and moves it forward.

Notes

7.9 BRAND ELEMENTS

Brand elements are used to identify and differentiate a brand. What's a brand element? Names, logos, symbols, characters, slogans, jingles, and packages all constitute brand elements. Brand elements have a direct impact on the degree of positive brand equity that can be established.

Think about Coke for a minute. Although in the U.S., we all focus on the great Coke goof, the introduction of new Coke, Coca-Cola has been enormously successful in the manipulation of its brand elements. It has been so successful that you can "get" the commercial if ad simply shows you an old coke bottle, or plays the first few notes of their jingle (it's the real thing). Just seeing that phrase makes those first few notes come to mind. Now that's excellence in brand management. Of course, Coke is almost universally acclaimed as the quintessential global product and global brand. A mid-90s Young & Rubicam study that included 23,000 consumers in 16 countries identified Coke as being number one in both brand stature and brand vitality. (Remember, a product is not a brand—personal stereos are a category of global product; Sony is a global brand). Coke is positioned and marketed the same in all countries; it projects a global image of fun, good times and enjoyment.

The product itself may vary to suite local tastes, prices may vary to suit local competitive conditions and channels of distribution may vary. However the basic underlying strategy that guides the management of the brand is the same worldwide. Mars Inc. addressed the global brand issues with its chocolate-covered caramel bar sold under a variety of national brand names, but know to U.S. consumers as Snickers.

Notes
'Express yourself is the tagline of Airtel

Transforming a global product into a global brand has both risks and opportunities. For example, the Snickers name might be held up to ridicule in the UK, where nickers are slang for women's undergarments. On the other hand, by having a global brand Mars is able to leverage its communications across national boundaries and can now think about the globally positioning of the global product.

Finally, brand identity is the entire set of brand elements; in this case we argue that the whole is more than the sum of all its parts. The unique combination of the brand elements gives the brand its distinctive brand identity.

KEY POINTS

1. Brands don't simply fade away. They are mismanaged by the corporations: or as Aaker would say, the management squanders its brand assets.
2. Brands have differentiating features that distinguish them from competitors and add value for consumers.
3. Often consumers aren't buying products, they're buying the images associated with the products.
4. Customer-based brand equity is the differential effect of brand knowledge on consumer response to the marketing of a brand.
5. Positive brand equity results when consumers are familiar with the brand and have strong, favorable and unique associations for it.
6. Creating positive brand equity requires building awareness and associations for a brand.
7. Through the selection of a position strategy, marketers can influence the knowledge structures consumers have for a brand.
8. Positioning a brand involves choice of a target market, a competitive arena, and the set of features on which a brand is going to be similar to and different from its rivals.
9. A brand's identity is created through the choice of a name, logo, symbol, slogan, package, jingle, and character.
10. Brand elements should be memorable, meaningful, transferable, adaptable, and protectable.
11. The brand-building potential of brand elements can be gauged by asking consumers what they would think about the product if they knew only its name, logo, and other identity characteristics.

7.10 SUMMARY

Notes

This unit focuses on branding and its various dimensions. It started with the concept of brand History, The brand and its relevance in everyday life of a consumer. The elements which constitute a brand, the brand name selection and its significance in positioning it in the minds of the consumer. Consumer buys brand and holds a brand in high esteem when they are satisfied and develop unique brand association in their memory.

7.11 Answers of Check your progress questions

1 It is a symbol or design that can be recognize by sight but not pronouncable.

2 Trade mark is a law,name of brand should be registered under the merchandise act 1958.

3 purchasing time & risk

4 No.

5 Local brands, Regional brands, National brands, International brands.

7.12 SELF ASSESSMENT QUESTIONS

Discuss what factors contribute to the success or failure of a Brand in the market place by picking up one example each from FMCG and consumer electronics of your choice.

UNIT 8
BRAND EQUITY

Notes

8.1 Brand – Equity –Definition

8.2 Brand – Equity – Concepts & Measurements

8.3 Brand – Strategy Decisions

8.4 Brand Policy Decisions

8.5 Multi Brand, Co-Brand, New Brand

8.6 Brand – Repositioning

8.7 Brand – Terminologies

8.8 Summary

8.9 Answers to Check your progress questions

8.10 Self Assessment Questions

8.11 Further Readings

Check your progress

1. Brand equity in financial perception is

____

LEARNING OBJECTIVES

a) Know what is Brand – Equity & its relevance in branding decisions.

b Know different ways of measuring Brand – Equity.

c)Know different terminologies associated with Brand Management.

d) Know about brand repositioning and brand strategic decisions

8.1 BRAND EQUITY

Numerous definitions of brand equity have been proposed by different authors. According to David Aakar (1991), brand equity is the set of assets and liabilities linked to a brand that add to or subtract from its value to the consumers and business. Brand equity is the monetary value added by the brand to the product. Brand equity may be further defined as the consumer's implicit valuation of the brand in a market with differentiated brands relative to a market with no brand differentiation.

Brand equity having three perspectives:

i)Financial: This approach to conceptualizing Brand equity is based on determining the price premium the brand commands over a generic product. Expenses like promotional costs are also taken into account while using this method of measuring rand equity.

ii) Consumer based: A strong brand increases the consumers' attitude strength towards the product associated with the brand. Of course attitude strength is built by experience

the consumers have about a product. This in turn implies that when a new brand is being launched, trial samples can be more effective than advertising. The consumers' awareness and associations lead to perceived quality, inferred attributes and eventually brand loyalty.

Notes

iii) Brand extensions: A successful brand can be used as a platform to launch related products. This helps in leveraging the existing brand awareness thus reducing the advertising expenses and a lower risk from the perspective of the consumers. But this methodology is more difficult to quantify.

According to Aakar (1991), brand equity is a multidimensional concept. It consists of

Brand loyalty,

Brand awareness,

Perceived quality,

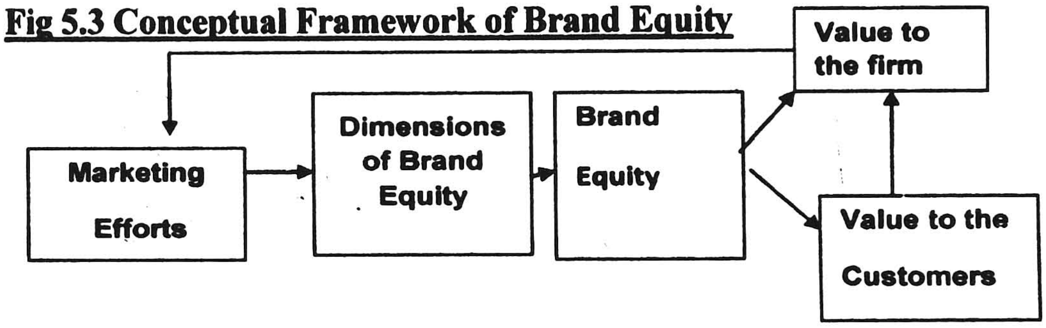
Brand associations and

Other Proprietary Brand assets.

Check your progress

2. Due to over usage of Brand extention strategy, ________

Fig 5.3 Conceptual Framework of Brand Equity



8.2 APPROACHES TO MEASURING BRANDING EQUITY

Existing measures of brand equity generally fall into three categories:

First are the measures that focus on outcome at the product market level. The most commonly measured unit is the price premium that the brand commands over a base product (also known as private label products). Price premium could also be measured by the related concepts of brand clout and vulnerability as measured by the brand's own and cross price elasticity Other measures of this type include constant term in sales response model or market inefficiency. But they fail to capture the interaction of equity with marketing mix activities like advertising and price.

The second category of measurement focuses on the measures related to customer mindset, i.e. the attitudes, associations and attachments that the customers have towards

the brand. This category of measurement has found focus both in the academic research as well as measures provided by the suppliers

Notes

The final category of measurement is based on the financial measurements. Specifically, these assess the value of a brand in terms of financial assets. Purchase price when a brand is sold or acquired and discounted cash flow dimensions of licensing fees and royalties are measurement of these type. Thus this measure is the residual once other sources of firm value are accounted for.

1. Measures focusing on the outcome at the product market level:

In this model of measurement, brand equity has been described to be synonymous with price premium that is the willingness of the consumers to pay more for a brand than the other. Price premium is a proxy for the elasticity of demand, which in turn is a measure of brand loyalty. Thus price premium reflects the brand's ability to command a price higher than its competitors. The price premium construct is consequently important for all types of brands, despite actual price position within a category. The price premium can either be negative or positive.

The brand 'Sony' is derived from merger of two words sonus and sonny. The englsih slang word sonny means smart, young and present-able

2.Measures related to customer mindset

According to this model, building a strong brand basically involves four steps: 1) Establishing proper brand identity, i.e. establishing the breadth and depth of brand awareness; 2) Creating appropriate brand meaning through strong, favorable and unique brand associations; 3) eliciting positive, accessible brand responses, and 4) forging brand relationship with customers that are characterized by intense active loyalty. Achieving these four steps, in turn, involves establishing six brand building blocks – brand salience, brand performance, brand imagery, brand judgments, brand feelings and brand resonance. One problem of this approach is that there is no metric to translate customer ratings into estimates of profit for the company. Kevin Lane Keller (2001) proposed the Consumer Based Brand Equity (CBBE) model, which provides a yardstick by which the brands can assess their progress in their brand building efforts. In addition, a critical application of the CBBE model is in planning, implementing and interpreting brand strategies. While reflecting a consumer or a marketing perspective, brand equity is referred to as Consumer Based Brand Equity (CBBE).

Check your progress

3. CBBE is introduced by __________

3.Measures relating to financial measurement

It has long been recognized that brand names are valuable to companies, and only recently serious attempts have been made to estimate their value. The current interest in brand valuation stems from the escalating costs of developing new brands, leading to prevalent usage of brand extension and international expansion. However, increasingly,

marketing managers of today believe that too much emphasis is being placed on short-term performance, which can reduce the long term performance of brand..Another method of estimating the brand equity of a firm is derived from financial market estimates of brand related profits.

Notes

There are two specific approaches to the same:

1. The macro approach estimates brand equity at the firm level. This estimate of brand equity is of interest because they allow a firm to compare the effectiveness of its portfolio of marketing policies to others in the industry. But one drawback of this approach is that it does not provide estimates of brand equity at individual brand level.

2. The micro approach isolates the brand equity at individual brand level by measuring the response of brand equity to major marketing decisions. Since the value of a firm's securities changes as new information hits the market, the estimate of firm level brand equity adapts to marketing decisions, like new product introduction and major advertising campaigns.

8.3 BRAND STRATEGY DECISION

A company has five choices when it comes to brand strategy. The company can intro-duce line extensions (existing brand name extended to new sizes or flavors in the exist-ing product category), brand extensions (brand names extended to new-product cate-gories), multi-brands (new brand names introduced in the same product category), new brands (new brand name for a new category product), and co-brands (brands bearing two or more well-known brand names).

Check your progress

4. What do you mean by Co-brands ?

Line Extensions Line extensions introduce additional items in the same product cat-egory under the same brand name, such as new flavors, forms, colors, added ingredi-ents, and package sizes. Dannon introduced several Dannon yogurt line extensions, including fat-free "light" yogurt and dessert flavors such as "mint chocolate cream pie." The vast majority of new products are actually line extensions.

Line extension involves risks and has provoked heated debate among marketing professionals.[14] On the downside, extensions may lead to the brand name losing its specific meaning; Ries and Trout call this the "line-extension trap."[15] A consumer ask-ing for a Coke in the past would receive a 6.5-ounce bottle. Today the seller will have to ask [illegible] Classic, or Cherry Coke? Regular or diet? With or without caffeine? Bottle or can? Sometimes the original brand identity is so strong that its line extensions serve only to confuse and do not sell enough to cover development and promotion costs. For example, A-1 poultry sauce flopped because people identify A-1 with beef.

Notes

However, the success of a new line extension sometimes hurts other items in the line. Although Fig Newton's cousins Cranberry Newtons, Blueberry Newtons, and Apple Newtons all sell well for Nabisco, the original Fig Newton now seems like just another flavor. A line extension works best when it takes sales away from rivals, not when it deflates or cannibalizes the company's other items.

On the upside, line extensions have a much higher chance of survival than do brand-new products. In fact, some marketing executives defend line extensions as the best way to build a business. Kimberly-Clark's Kleenex unit has had great success with line extensions. "We try to get facial tissue in every room of the home," says one Kimberly-Clark executive. "If it is there, it will get used." This philosophy led to 20 vari-eties of Kleenex facial tissues, including a line packaged for children.

Brand Extensions A company may use its existing brand name to launch new prod-ucts in other categories. Autobytel.com, a pioneer of Internet-based car sales, used brand extensions to introduce automotive financing, insurance, and car repairs on its Web site. A recent trend in corporate brand-building is corporations licensing their names to manufacturers of a wide range of products—from bedding to shoes. Harley-Davidson, for example, uses licensing to reach audiences that are not part of its core market, with branded armchairs for women and branded a Barbie doll for the future generation of Harley purchasers.[16]

Brand-extension strategy offers many of the same advantages as line exten-sions—but it also involves risks. One risk is that the new product might disappoint buy-ers and damage their respect for the company's other products. Another is that the brand name may be inappropriate to the new product—consider Bic perfume, a clas-sic failure because buyers did not associate the Bic brand with fragrance products. A third risk is brand dilution, which occurs when consumers no longer associate a brand with a specific product or highly similar products.

8.4 BRANDING POLICY DECISIONS

In considering and making branding decisions, the firm has to consider factors like, target consumer, target markets, their cultural influences on the market, and the impact of brand on business strategy for example a product which is culturally alien will find difficulty in getting accepted in the market like in case of 'Ms' brand of cigarettes targeted at Indian women failed in the market place. Besides the firm has to consider the values, attitudes and cultural aspects of target consumers.

The brand decisions a firm has to take are-

manufacturers name i.e. whether to have its own name on all products, or

• • • a) b) marketing organization /distributors brand name, or adopt a mix. of the two

The firm should also take decisions relating to the following:

Family brand name-extending family name to new products like Onida did to other products like washing machines, music systems etc.

Independent Brand name-a practice which most of the consumer product firms like P&G adopted for its toiletry and other personal care products.

Manufacturer Brand Policy

As the name suggest that this policy is based on the assumption that the manufacturer has built a reputation in the market, with a strong and wide distribution network and sound financial resources to establish a new product in the market. Customer faith and confidence in the firm is the-prime factor in the manufacturer deciding to brand the product in its own name. When the manufacturers market such product in its own name nationally, this is called the national brand policy. Classic examples are all leading national brands of Indian corporate in all product categories. Example: Hero Motors, Maruti & Raymond etc. Under this Brand Policy there are two options.

Family Branding

Most of us use different brands for personal consumption and are loyal towards some of these brands for reasons best known to each of us. Thus when the name brings in positive associations in the minds of consumers with respect to quality reliability and assurance of standards in all their product offerings. In these situations family branding works effectively...

Family brand names are generally recommended in view of high cost associated in creating a new brand. However, when the product is not accepted in the market place then the entire family name would stand to loose. Family branding is also known as umbrella branding for instance ponds is the mother brand name used for shampoos, talcum powder cold creams and toilet soaps.

In view of the above drawback, the strategy of an independent brand name is therefore encouraged.

Branding Decisions

Notes

Sam Pitroda invented the first digital diary in 1975

Check your progress

5. Examples for Family branding

____

Notes

The acronym of INTEL is INTegrated ELectronics

Independent Branding

You also come across some firms choosing distinct names for each of their offerings Dabur, Godrej etc. have been following this option of giving different names to each of their products. The advantages of Independent brand name lies in strong market penetration of the product across various well-defined segments. The products marketed by a company may become diverse and hence requires a distinct names. Sometimes they may have multiple brands of a product which compete with each other. It makes sense to pursue this strategy of individual brand names for each offering. in the cigarette business ITC has a large number of brands covering almost all price segments and this enables it to have inter brand competition; in the process a competitor finds no room to carve out a niche.

Distributors Brand Policy

This is an alternative to manufacturer brand policy, which comes handy and are relevant in the absence of firms, strength in marketing and adequate financial resources to build a strong brand and the competition in tine industry is high. As a result of the latter, the retail shelf space is at premium. The distributor or the marketing organization has strengths in the market, customers have confidence in it and hence his bargaining power with the manufacturer is high. In such a situation it may be advisable to market the product under the distributor brand name.

Check your progress

6. Example for Distributor branding__________

As competition intensifies, fight for shelf space will become severe. More retail chains created nationally will also put a pressure on the manufacturer to let them market products under their. (retail firms) names.

The risk associated with this strategy are-

- loss of control over the product marketing;
- if the product succeeds, premium may go to the distributor and not to the manufacturer; and
- distributor may not extend the desired marketing support to the brand.

Mixed Brand Policy

An alternative to the above two options is for the firm to enter into a strategic alliance with a well known Marketing firm and allow it to market the product under its name in a well defined geographic area. The manufacturer also confirms to market the product under his own name nationally. This is done to fight regional competition.

8.6 MULTI-BRANDS, NEW BRANDS & CO-BRANDS

Multi-brands A company will often introduce additional brands in the same product category. Sometimes the firm is trying to establish different features or appeal to dif-ferent buying motives. Multi-branding also enables the company to lock up more dis-tributor shelf space and to protect its major brand by setting up flanker brands. For example, Seiko uses one brand for higher-priced watches (Seiko Lasalle) and another for lower-priced watches (Pulsar) to protect its flanks. Ideally, a company's brands within a category should cannibalize the competitors' brands and not each other. At the very least, net profits from multibrands should be larger despite some cannibalism.

Notes

New Brands When a company launches products in a new category, it may find that none of its current brand names are appropriate. If Timex decides to make tooth-brushes, it is not likely to call them Timex toothbrushes. Yet establishing a new brand name in the U.S. marketplace for a mass-consumer-packaged good can cost anywhere from $50 million to $100 million, making this an extremely critical decision.

Co-brands A rising phenomenon is the emergence of co-branding (also called dual branding), in which two or more well-known brands are combined in an offer. Each brand sponsor expects that the other brand name will strengthen preference or pur-chase intention. In the case of co-packaged products, each brand hopes it might be reaching a new audience by associating with the other brand.

Co-branding takes a variety of forms. One is ingredient co-branding, as when Volvo advertises that it uses Michelin tires or Betty Crocker's brownie mix includes Hershey's chocolate syrup. Another form is same-company co-branding, as when General Mills advertises Trix and Yoplait yogurt. Still another form is joint venture co-branding, as in the case of General Electric and Hitachi lightbulbs in Japan and the MSNBC Web site from Microsoft and NBC. Finally, there is multiple-sponsor co-branding, as in the case of Taligent, a technological alliance of Apple, IBM, and Motorola.[18]

Many manufacturers make components—motors, computer chips, carpet fibers—that enter into final branded products, and whose individual identity nor-mally gets lost. These manufacturers hope their brand will be featured as part of the final product. Intel's consumer-directed brand campaign convinced many peo-ple to buy only PCs with "Intel Inside." As a result, many PC manufacturers buy chips from Intel at a premium price rather than buying equivalent chips from other suppliers.

8.6 BRAND REPOSITIONING

Notes

However well a brand is currently positioned, the company may have to reposition it later when facing new competitors or changing customer preferences. Consider 7-Up, which was one of several soft drinks bought primarily by older people who wanted a bland, lemon-flavored drink. Research indicated that although a majority of soft-drink consumers preferred a cola, they did not prefer it all of the time, and many other con-sumers were non cola drinkers. 7-Up sought leadership in the non cola market by calling itself the Uncola and positioning itself as a youthful and refreshing drink, the one to reach for instead of a cola. Thus, 7-Up successfully established itself as the alterna-tive to colas, not just another soft drink.

8.7 BRAND TERMINOLOGIES

Brand

A unique and identifiable symbol, association, name or trademark which serves to differentiate competing products or services. Both a physical and emotional trigger to create a relationship between consumers and the product/service.

Brand Attributes

Functional or emotional associations that are assigned to a brand by its customers and prospects. Brand attributes can be either negative or positive and can have varying degrees of relevance and importance to different customer segments.

Brand Audit

A comprehensive and systematic examination of all collateral (both tangible and intangible) which relates to a brand.

Brand Awareness:

The proportion of target customers that recall a brand. Realization by a consumer of the existence and availability of a particular product. Brand awareness is a common measure of marketing communications effectiveness. Unaided awareness is spontaneous; aided or prompted awareness is when the name is recognized among others that are listed or identified.

Brand Equity:

The value - both tangible and intangible that a brand adds to a product/service.

Brand Essence:

The core characteristic that defines a brand.

Brand Expansion:

The exposure of a brand to a broader target customer market, geographic market, or distribution channel.

Brand Extension:

The application of a brand beyond its initial range of products, or outside of its category. This becomes possible when the brand image and attributes have contributed to a perception with the consumer/user where the brand and not the product is the decision driver.

Brand Identity

A unique set of associations that the brand strategist aspires to create or maintain. These associations represent what the brand should stand for and imply a potential promise to customers. It is important to note that a brand identity refers to the strategic goal for a brand; while brand image is what currently resides in the minds of consumers.

Brand Image

A unique set of associations within the minds of target customers which represent what the brand currently stands for and implies the current promise to customers. (Note that brand image is what is currently in the minds of consumers, whereas brand identity is aspirational).

Brand Loyalty

The strength of preference for a brand compared to other similar available options. This is often measured in terms of repeat purchase behaviour or price sensitivity.

Brand Management:

The process of managing an organization's brands in order to increase long-term brand equity. Also the person or group responsible for designing brand identities, aligning them for maximum effectiveness, ensuring that they are not compromised by tactical actions, and designing appropriate brand crisis management plans.

Brand Personality:

Brand image or identity expressed in terms of human characteristics. Distinguishing and identifiable characteristics which offer consistent, enduring and predictable messages and perceptions.

Brand Positioning

The "market space" a brand is perceived to occupy; the part of the brand identity that is to be actively communicated in a way that meaningfully sets it apart from the competition.

Brand Positioning Statement

A statement that describes the "place" that a brand should occupy in the minds of target customers. Focuses on the equities that meaningfully set a brand apart from the competition. Typically constructed in the following format: "To (target market), Brand X is the brand of (frame of reference) that (point of difference)." E.g. "to the brand of (frame of reference) that (point of difference)." E.g. "to caffeine-concerned coffee drinkers, Sanka is the brand of coffee that has no caffeine to upset you."

Brand Power

A measure of the ability of the brand to dominate its product category.

Brand Relevance

The alignment of a brand - its attributes, identity and personality with the primary needs/wants of its target audience

Brand Slogan/Tagline

A easily recognizable and memorable phase which often accompanies a brand name. An aid to recall and reinforcement. E.g. Nike: "Just do it"

Brand Strategy

The 'big picture' plans and tactics deployed by an organization/brand owner to to create brand equity.

Brand Value

The monetary premium that results from having customers who are committed to your brand and willing to pay extra for it. The financial value calculated or determined to be attributable to the brand, apart from other tangible assets.

Brand Value Proposition

The functional, emotional, and self-expressive benefits delivered by the brand that provide value to the customer: provides the rationale for making one brand choice over another.

8.8 SUMMARY

In this unit the discussion was over the issues of strategic decisions regarding Product and Brand Management. Brand equity is like other intangible assets difficult to evaluate and manage. It can be defined as the consumer franchise for the brand. Various

measures have been proposed for valuing the brand equity. Some of the important measures are brand awareness, brand association, brand personality, Price premium, customer satisfaction, perceived quality, brand salience and so on. Composite index can be constructed using these measures by weighted average for arriving at a single value. The weights have to be chosen carefully to reflect the product category, served market and so on. Brand equity can be nurtured and built by carefully planning and implementation of marketing strategies. Building brand equity is not sufficient, it has to be managed and sustained over longer period of time. To do so the managers have to take a much broader view of brand management than managing a single brand.

8.9 Answers to Check your progress questions

1 contribution of all expences maid for build the brand.
2 decrease the brand equity.
3 Kevin Lane Kella (2001)
4 The brand bearing two or more well known brand names.
5 Tata, Reliance.
6 Pothys.

8.10 SELF ASSESSMENT QUESTIONS

1. Creation and management of Brand equity revolves round the consumer. Do you agree or disagree substantiate your answer.

2. What considerations make marketers believe that Brands are financial assets.

8.11 FURTHER READINGS

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A GLIMPSE INTO THE PAST OF SELECTED BRANDS[1]**Coca-Cola** (aerated drink and manufacturer) As one of the best known and most international of trade ames, *Coca-Cola* was created in May 1886 by Frank M. Robinson, bookkeeper to the creator of the drink itself, Dr. John S. Pemberton, a druggist from Atlanta, Georgia, and was registered as a trademark on 31 January 1893. The name was based on two of the drink's

constituents: extracts from *coca* leaves and from the *cola* nut. That coca leaves also yield cocaine is a connection that the manufacturers do not now prefer to emphasize, and it is certainly true that although the drink once contained a form of the drug, especially in the early days when it was advertised as an 'Esteemed Brain Tonic and Intellectual Beverage,' it contains none now. The name itself is a remarkably successful one as a memorable and easily pronounceable trade name, having alliteration and three desirable 'k' sounds (compare *Kodak*). *Coca-Cola* gained popularity rapidly—it was first bottled in 1894—to such an extent that the manufacturers were obliged to register a second name for it used by the public as a 'pet' form: *Coke*. The second element of the name is not a registered trademark, so that 'cola' drinks exist on the market in a number of varieties. Among names of rival brands (imposters) were Coca, Cola, Fig Cola, Candy Cola, Cold Cola, Cay-Ola, and Koca-Nola. All these were outlawed by the courts in 1916.**Gillette** (safety razors, blades, and toiletries by *Gillette* Industries) The name comes from the company's first president, King Camp Gillette, who traced his name back to the Gillet family of Somerset, England. Gillette patented the first disposable razorblades in 1902, having the previous year founded his company for the manufacture of razors and blades, initially as the American Safety Razor Co. *Gillette* as a name has a favourable French appearance (although a bogus one) for products in the sophisticated toiletries market. Gillette's original blade had been perfected by William E. Nickerson, who designed equipment for the company. It was fortunate that he had not been the actual inventor, since 'Nickerson' would hardly make a suitable name for a company selling razors and blades.**Kodak** (photographic products and cameras and manufacturer) A trade name that is as well known internationally as *Coca-Cola*. The two names, in fact, appeared within two years of each other: *Coca-Cola* in 1886 and *Kodak* in 1888. *Kodak* as a name has no meaning: it is not intended to suggest any word (as 'code' or 'compact'), nor does it derive from any word. It was invented by the American photographic pioneer, George Eastman, who patented it on 4 September 1888. Fortunately for posterity, Eastman has recorded the reasoning that prompted him to choose this particular name. He chose it, he says, "because I knew a trade name must be short, vigorous, incapable of being misspelled to an extent that would destroy its identity, and in order to satisfy trademark laws, it must mean nothing. The letter K has been a favourite with me—it

seemed a strong, incisive sort of letter. Therefore, the work I wanted had to start with K. Then it became a question of trying out a great number of combinations of letters that made words starting and ending with K. The word Kodak is the result.'

It has been pointed out that the name is additionally onomatopoeic—it suggests the clicking of a camera's shutter. It may also be relevant that 'K' was first letter of Eastman's mother's family name. The name has sometimes been used generically in a number of languages for a camera. This prompted the *Verband Deutscher Amateurphotographen Vereine* ('Joint Society of German Amateur Photographic Associations') to issue the following warning (in German) in 1917: 'Whoever speaks of a *Kodak* meaning only a photographic camera in general is not mindful of the fact that he is damaging the German industry in favour of the Anglo-American by widespread use of this word.' George Eastman also invented the name of one of *Kodak's* most popular cameras, the *Brownie*.**Shell** (petroleum and manufacturer) The story of *Shell* began in the first half of the nineteenth century in the curio shop in East Smithfield, London, set up by a Jewish dealer, Marcus Samuel. Samuel's children had fastened seaside shells to their empty lunch boxes on returning from a holiday, and the dealer made up a number of such boxes and labeled them with the names of the resorts the shells had come from. For the more sophisticated demands of his lady customers he imported fancy polished shells from abroad. His shop soon became known as the Shell Shop, and business expanded rapidly so that by 1830 Marcus Samuel had built up an international trade in oriental curios and copra, as well as shells. When barreled kerosene was added to his cargo list, the world-wide activities of the Shell Shop were consolidated as the *Shell* Transport and Trading Co. This was in 1897 when the firm had been taken over by Samuel's son, also called Marcus. (Marcus *père* died in 1870, aged 73.) The company adopted the scallop as its trademark in 1904.**Sony** (electrical equipment and manufacturer) Many Japanese trade names turn out to be taken simply from the surname of a company founder or an inventor. *Sony* is rather different. When Japan's first transistor radio was produced by the Tokyo Tsushin Kogyo Kabushai Kaisha (company) in 1955 the directors understandably felt that they needed a much more 'streamlined' and international name for it than the full length company name. At first they considered "TTK, which was certainly better, but there already existed a TKK (Tokyo

Kyuto KK, or Tokyo Express Co.) which would be confusing. Earlier, they had used 'Tape-corder' for their tape recorder and 'Soni' (from *'sonic'*) for this machine's tape. Considering, 'Soni,' the directors felt that this would probably be mispronounced in English, as 'so-nigh.' But the international (Latin) base *'son,'* meaning 'sound,' was good, and an alteration of the final 'i' to 'y' would suggest 'sonny,' and give the name a homely, affectionate touch. If, however, the actual name was spelled 'Sonny' the Japanese would pronounce this as 'son-ny,' and this might be associated with the Japanese word for 'loss,' *son*. This would not do, since the radio was clearly intended to produce a profit! Finally, the variant Sony was decided on for the transistor, and the name passed to the company as a whole in 1958.

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Notes

UNIT 9
PACKAGING & LABELLING

Structure

9.1 Introduction

9.2 Importance of Packaging in Marketing

9.3 Packaging the fifth "P" of Marketing

9.4 Packaging Concept

9.5 Functions of Packaging

9.6 Packaging Materials

9.7 Packaging and Product Differentiation

9.8 Packaging Strategies

9.9 Cost effectiveness of Packaging

9.10 Legal & Social aspects of Packaging

9.11 Labelling-Importance and Mechanism

9.12 Answers to Check your progress questions

Summary

Self-Assessment Questions

Further Readings

LEARNING OBJECTIVES

- relate the importance of packaging in the present day competitive environment
- comment upon the functions of packaging
- know about the various packaging materials
- describe the different packaging strategies
- discuss the legal and social aspects of packaging
- describe the labelling concepts and its importance

9.1 INTRODUCTION TO PACKAGING

Physical products require packaging decisions to create such benefits as protection, economy, convenience, and promotion. Marketers have to develop a packaging concept and test it functionally and psychologically to make sure it achieves the desired objectives

Check your progress

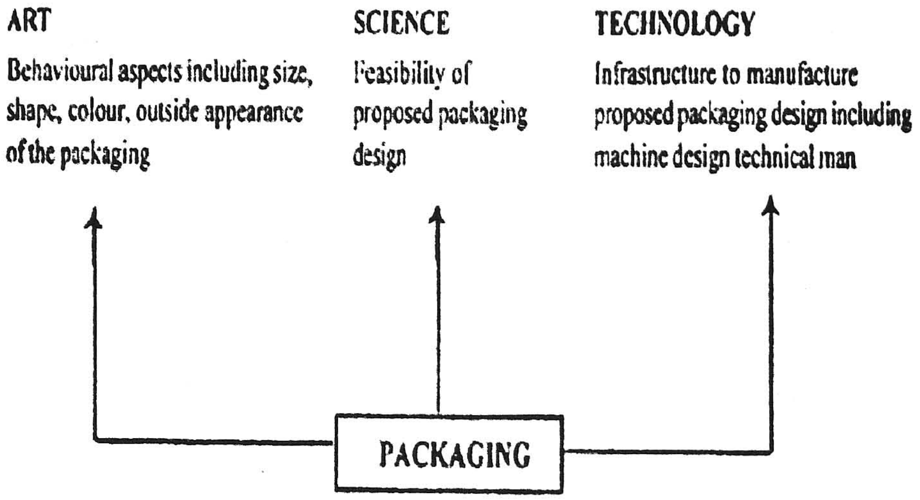
1. Basic usage of package is to _______

and is compatible with public policy. Physical products also require labeling for identification and possible grading, description, and promotion of the product.

Notes

Packaging can be described as the art, science and technology of preparing goods for transport and sale, This can be highlighted through the following diagram.

Figure 11.1 : Definition of Packaging



Grasim is known as 'Midnight Child' because it was corporated 10 days after India was declared indenpendence on August 15, 1947

9.2 THE ROLE OF PACKAGING IN MARKETING

Check your progress

2. Trends for a good package is ________

At the very heart of a strong brand sits the product/service package. This is what the customer is buying. A product, a service or, more and more is a total package. A package serves as the protector of the product itself. It is very important for the product to have an innovative yet practical package. Packaging is of great significance in the final choice of the potential buyer. Consumers always look for something new. People choose a product that involves convenience, appeal, information and branding in the package.

In this case, constant research and development of the product packaging should be done. Product package and packaging is absolutely critical for a product in order to survive the increasing competition. It is also argued that product innovation is absolutely the key to long-term competitiveness. Customer information in more traditional industries is of course also useful. Traditionally, product improvements and development of new products have been based on a combination of analysis of market trends and creativity/intuition. The combination of the two will always be required.

New developments in packaging, occurring rapidly and in a seemingly endless flow, required management's constant attention to packaging design. We see new packaging materials replacing the traditional ones, new shapes, new closures, and

other new features (measured portions, metered flow). These all make for increased convenience for consumers and additional selling points for marketers. One new development in packaging that will be particularly interesting to watch in the coming years is the aseptic container-a "paper bottle" made of laminations of paper, aluminium foil, and plastic. Its airtight feature keeps perishables fresh for 5 months without refrigeration and it costs about one -half as much as cans and 30 per cent as much as bottles.

Specifically both packaging and labeling are useful for:

- Creating customer satisfaction
- Protecting the contents inside
- Communicating the product attributes
- Helping in product handling
- identifying brand name and seller
- Promoting the product with attractive design and colours
- Keeping costs down
- Information on the ingredients of the product
- Offering customer convenience.

9.3 PACKAGING AS A FIFTH "P" IN MARKETING

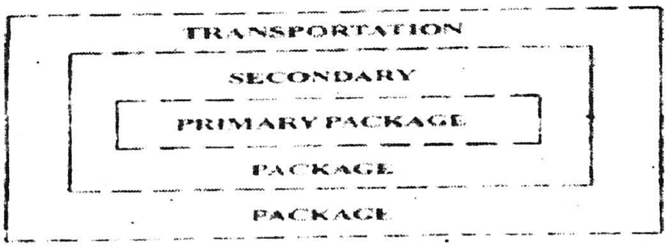
Packaging has now come to be defined as the fifth P of marketing. It gives an enhanced value to the product per se. At this stage, it is important to understand that a package may include three levels of material

i) A primary package which is the products immediate container;

ii) A secondary package which refers to additional layers of material that protect the primary package and which are discarded when the product is about to be used;

iii) The transportation package which refers to packaging necessary for storage and identification of the packaged products. This can be illustrated as:

Figure 11.2 : Levels of Packaging



Notes

Take a simple product like toothpaste to understand the levels involved in packaging. The extruded aluminium tube which holds the toothpaste is its immediate primary package. The cardboard container which holds the tube is the secondary package. The carton/box which consists of a number of cardboard containers will be transportation package used for distribution purposes.

It is evident that the importance of packaging largely depends upon the type of product. The different levels of packaging, type and importance would vary with the type of product whether consumer product/industrial product/bulky product/ light product/solid product/liquid product. It would also vary with the distance over which it has to be transported.

9.4 PACKAGING CONCEPT

Packaging includes the activities of designing and producing the container for a product.

The container is called the *package*, and it might include up to three levels of material. Old Spice aftershave lotion is in a bottle *(primary package)* that is in a cardboard box *(secondary package)* that is in a corrugated box *(shipping package)* containing six dozen boxes of Old Spice.

The following factors have contributed to packaging's growing use as a potent marketing tool:

Self-service: The typical supermarket shopper passes by some 300 items per minute. Given that 53 percent of all purchases are made on impulse, an effective package attracts attention, describes features, creates confidence, and makes a favorable impression.

Consumer affluence: Rising consumer affluence means consumers are willing to pay a

little more for the convenience, appearance, dependability, and prestige of better packages.

Company and brand image: Packages contribute to instant recognition of the company or brand. Campbell Soup estimates that the average shopper sees its red and white can 76 times a year, the equivalent of $26 million worth of advertising.

Notes

Lambretta was the first scooter brand introduced in independent India

Innovation opportunity: Innovative packaging can bring benefits to consumers and profits to producers. Toothpaste pump dispensers, for example, have captured 12 percent of the toothpaste market because they are more convenient and less messy. Developing an effective package for a new product requires several decisions. The first task is to establish the *packaging concept,* defining what the package should basically *be* or *do* for the particular product. Then decisions must be made on additional elements—size, shape, materials, color, text, and brand mark, plus the use of any "tamperproof" devices. All packaging elements must be in harmony and, in turn, must harmonize with the product's pricing, advertising, and other marketing elements.

Next come engineering tests to ensure that the package stands up under normal conditions; visual tests, to ensure that the script is legible and the colors harmonious; dealer tests, to ensure that dealers find the packages attractive and easy to handle; and, finally, consumer tests, to ensure favorable response. Tetra Pak, a major Swedish multinational, provides an example of the power of innovative packaging and customer orientation. The firm invented an "aseptic" package that enables milk, fruit juice, and other perishable liquid foods to be distributed without refrigeration. This allows dairies to distribute milk over a wider area without investing in refrigerated trucks and facilities.

A package which would symbolise youth and freedom, which would be easy to carry around and reasonably priced to purchase needed to be created. This was the packaging concept. The package which emerged finally was blue in colour, depicting the texture of the denim jeans. A red brand in the centre contained the brand name "CHARMS". The package was of smooth and soft blue paper, instead of the thick carton like package available in general. The correspondence between the packaging design and benefits of the consumer can be drawn out asunder:

Package	Design	Benefits
1. COLOUR	DENIM BLUE	Matches with the free life style of youth Jeans are a symbol of youth.
2. TEXTURE	SMOOTH BLUE PAPER	Economic as well as glossy look.
3. PACKET	SOFT	Can be conveniently placed in the shirt/jeans etc. pockets
4. DESIGN	TWO WHITE BIRDS	This symbolises a release from the
	FLYING TOWARDS	tensions for the young generation.
	THE SKY	

9.5 FUNCTIONS OF PACKAGING

Notes

Vittel brand was the first to sell mineral water in plastic bottle in 1968

Check your progress

3. Give an example for the package which the packaging cost is higher than the cost of the product.

i) Protection

The primary function of packaging from times immemorial has been protection of the product from being destroyed or spoiled through environmental hazards. These include breakage/damage due to rough handling protection from extreme climatic conditions such as heat, cold, monsoons; protection from contamination or absorption of moisture etc.

ii) Differentiation/Positioning

In recent times when more and more products belong to the "me-too" category it is packaging which lends a different positioning to the product. It offers consumers newer benefits enabling differentiation of the product.

iii) Packaging for Promotion

Packaging is largely used as a promotional tool. Several schemes like offering of discount on purchase of certain number of packages, offering accessories for the product along with the packaging are introduced by the marketer to make the product more appealing e.g., children's products like chocolate offer certain gifts like games, toys etc. on collection of a certain number of wrappers. Small samples of new products are often offered along with existing product of the company e.g., offer of D-cold inhaler with Borosoft cream. Also at times the package is made attractive by making it reusable e.g., jugs offers i.e., by Brooke Bond tea and designer bottles by Nescafe etc.

iv) Packaging for Pricing

When a company plans to launch a product in the premium market it can do so by giving it in a premium package. The package enhances the value of the product which if placed in an ordinary package would not be a appealing to the target consumer. Also, at times, a package smaller than the regular size and shaped oddly may be priced higher and yet achieve the desired effect e.g., selling of Ketchup by Maggi in 400 gm. bottles compared to the usual 500gms.

v) Packaging for Convenience

The package is designed keeping in mind the distribution channel it has to pass through. It tends convenience to the producer, wholesaler, retailer as well as the final end-user with respect to stocking, displaying, occupancy of shelf space, reusability and disposal.

Packaging has thus emerged one of the most potent marketing tools in recent times. Product successes have come to be closely related with new packaging successes rather than new product innovations.

9.6 PACKAGING MATERIALS

Textiles

Textile containers have poor gas and moisture barrier properties and have a poorer appearance than plastics. Woven jute sacks, which are chemically treated to prevent rotting and to reduce their flammability, are non-slip, have a high tear resistance, and good durability. They are used to transport a wide variety of bulk foods including grain, flour, sugar and salt.

Cotton

Calico is usually a closely woven, strong, plain, cotton fabric which is inexpensive and is satisfactory as a wrapper for flour, grains, legumes, coffee beans and powdered or granulated sugar. It can be re-used as many times as the material withstands washing and is easily marked to indicate the contents of the bag. Muslin and cheesecloth are open-mesh, light fabrics used to wrap soft foods, which they help hold together in the desired shape. Processed meats, smoked shoulders of ham, etc. are tightly wrapped in cheesecloth, before being packaged into cellophane, wax paper etc. Both muslin bags and cheesecloth wrappers have to be cut open and can seldom be re-used. It is a very cheap material, made in huge quantities because of its multiple applications, but it gives very little protection to food, and simply holds it together.

Kenaf

The kenaf plant grows in Central Asia, India, Africa and Cuba. It is chiefly used for making ropes and string but can be spun into a yarn which is fine enough to make a coarse canvas. In India, it is known as ambari or deccan hemp and in Africa, lipatam or gombo.

Sisal

Sisal is a fibre that comes from the agave family of plants. Sisal is resistant to salt water and therefore makes an ideal natural material from which to make rope. The nets in which hard fruits are transported are often hand-made from vegetable fibre.

Notes

Wood

Wooden shipping containers have traditionally been used for a wide range of solid and liquid foods including fruits, vegetables, tea and beer. Wood offers good mechanical protection, good stacking characteristics and a high weight-to-strength ratio. However, plastic containers have a lower cost and have largely replaced wood in many applications. The use of wood continues for some wines and spirits because the transfer of flavour compounds from the wooden barrels improves the quality of the product. Wooden tea chests are produced more cheaply than other containers in tea-producing countries and are still widely used. Wooden crates are imported for transporting fresh fruit and vegetables, fish etc. They are used to hold foods together and protect them from crushing, but otherwise offer little protection.

Traditional packaging materials

In general these materials are used to hold foods but they offer little in the way of barrier properties needed for a long shelf life. The exception is glazed pottery, which although heavy, has excellent properties.

Check your progress

4. The cheap and best packaging material is ______

Leaves

Banana or plantain leaves are the most common and widespread leaves used for wrapping foods, such as certain kinds of cheese and confectionery (guava cheese). Cornhusk is used to wrap corn paste or block brown sugar, and cooked foods of all sorts are wrapped into leaves. 'Pan' leaves are used for wrapping spices (India), they are an excellent solution for products that are quickly consumed, as they are cheap and readily available.

Vegetable fibres

These natural raw materials are converted into fibres to produce the yarn, string or cord for packaging materials. Such materials, although categorized by the nature of the constituent fibre, have certain common characteristics. They are very flexible, to some extent resistant to tearing and permeable to water and water vapour. Their lightweight is an advantage in handling and transport.

The rough surface makes stacking easier in comparison to man-made fibre sacks, which slide due to their smooth surface. Another difference with man-made fibres is that the natural raw materials are bio-degradable when left in their pure state. However, they rot when moist limiting the number of times that they can be re-used.

Notes

Earthenware

Earthenware is used worldwide for storage of liquids and solid foods such as curd, yoghurt, beer, dried food, honey, etc. Corks, wooden lids, leaves, wax, plastic sheets, or combinations of these are used to seal the pots. If well sealed, it is a gas, moisture and lightproof container. Unglazed earthenware is porous and is very suitable for products that need cooling e.g. curd. Glazed pots are better for storing liquids e.g. oils, wine, as they are moisture proof and airtight, if properly sealed. All are lightproof and if clean, restrict the entry and growth of micro-organisms, insects and rodents. One should ensure that the glazing of the earthenware does not contain lead. Most traditionally glazed pots do have lead glazings which, although they are not really harmful for serving coffee or soup, should not be used for acid drinks and other products which are to be stored for a long time.

Turtles, the Kolkata based menswear brand has embarked on the task of saving turtles in the country particularly in Orissa and Gujarat

Metal

Metal cans have a number of advantages over other types of container, including the following:

- they provide total protection of the contents
- they are convenient for ambient storage and presentation
- they are tamperproof.

However, the high cost of metal and the high manufacturing costs make cans expensive. They are heavier than other materials, except glass, and therefore have higher transport costs.

Check your progress

5. Liquid type of goods only needs _____ types of packages.

Glass

Glass containers have the following advantages:

- they are impervious to moisture, gases, odours and micro-organisms
- they are inert and do not react with or migrate into food products
- they are suitable for heat processing when hermetically sealed
- they are re-useable and recyclable
- they are resalable
- they are transparent to display the contents
- They are rigid, to allow stacking without container damage.

Notes

The disadvantages of glass include:

- higher weight which incurs higher transport costs than other types of packaging
- lower resistance than other materials to fractures, scratches and thermal shock
- more variable dimensions than metal or plastic containers
- Potentially serious hazards from glass splinters or fragments in foods.

Cellulose

Plain cellulose is a glossy transparent film which is odourless, tasteless and biodegradable (within approximately 100 days). It is tough and puncture resistant, although it tears easily. However, it is not heat sealable and the dimensions and permeability of the film vary with changes in humidity. It is used for foods that do not require a complete moisture or gas barrier.

Polypropylene

Polypropylene is a clear glossy film with a high strength and is puncture resistance. It has moderate permeability to moisture, gases and odours, which is not affected by changes in humidity. It stretches, although less than polyethylene.

Polyethylene

Low-density polyethylene is heat sealable, inert, odour free and shrinks when heated. It is a good moisture barrier but has relatively high gas permeability, sensitivity to oils and poor odour resistance. It is less expensive than most films and is therefore widely used.

High-density polyethylene is stronger, thicker, less flexible and more brittle than low-density polyethylene and has lower permeability to gases and moisture. It has higher softening temperature (121°C) and can therefore be heat sterilized. Sacks made from 0.03 to 0.15mm high-density polyethylene have high tear strength, penetration resistance and seal strength. They are waterproof and chemically resistant and are used instead of paper sacks.

Paper & cardboard

'Sulphate' paper is strong and hence used for paper sacks for flour, sugar, fruits and vegetables. 'Sulphite' paper is lighter and weaker and is used for grocery bags and sweet wrappers, as an inner liner for biscuits and in laminations. Greaseproof paper is sulphite paper made resistant to oils and fats, for meat and dairy products. Glassine

is a greaseproof sulphite paper which is given a high gloss. It is resistant to water when dry but loses its resistance once it becomes wet. Tissue paper is a soft paper used for example to protect fruits against dust and bruising. Many papers are also treated with wax to provide a moisture barrier and allow the paper to be heat sealed. However, a simple wax coating is easily damaged by folding or by abrasive foods. This is overcome by laminating the wax between layers of paper and/or polyethylene. Waxed papers are used for bread wrappers and inner liners for cereal cartons.

Boards are made in a similar way to paper but are thicker to protect foods from mechanical damage. The main characteristics of board are thickness, stiffness, the ability to crease without cracking and the degree of whiteness. White board is suitable for contact with food and is often coated with polyethylene, polyvinyl chloride or wax for heat sealability. It is used for ice cream, chocolate and frozen food cartons. Chipboard is made from recycled paper and is not used in contact with foods (for example the outer cartons for tea and cereals). It is often lined with white board to improve the appearance and strength. Other types include paperboard and moulded paperboard trays (for example egg cartons).

Thus an ideal packing is one which ensures safe arrival of goods at destination. It must be strong enough to protect its contents against hazards like dampness, rough handling, stacking, improper storage and pilferage. However, packing should not be such as to add unnecessarily to freight expenses or to import duties in countries where these are levied on the basis of weight of goods.

9.7 PACKAGING AND PRODUCT DIFFERENTIATION

Product differentiation can sometimes be done without modifying or altering the product or its features. This can be done by adopting an attractive or unique packaging, or by opting for a unique advertising campaign which registers itself in minds of the customer.

It is necessary to identify and differentiate the product as unique according to its brand image. By occupying the space on the shelf with its surface the packaging itself makes it possible for the customer to detect and identify the product inside. If the packaging is properly designed and produced it identifies the brand creating a strong and detailed reference.

9.8 PACKAGING STRATEGIES

Changing the Package

Notes

Prior to independence, Tata 501 soap bar brand used to run ads with the following line 'Make white clothes stay white. pure swedeshi and free from animal fat'.

Check your progress

6. Example for multi-packaging, ______

In general, management has two reasons for considering a package change-to combat a decrease in sales and to expand a market by attracting new groups of customers. More specifically, a firm may want to take advantage of new materials. Some companies change their containers to aid in promotional programmes. A new package may be used as a major appeal in advertising copy or because the old container may not show up well in advertisements.

Packaging the Product Line

A company must decide whether to develop a family resemblance in the packing of its several products. Family packaging involves the use of identical package for all products or the use of packages with some common feature. Shahnaz, Herbal, for example, uses virtually identical packaging generally parallels its feelings about family banding. When new products are added to a line, promotional values associated with old products extend to the new ones. On the other hand, family packaging should be used only when the products are related in use and are of similar quality.

Reuse Packaging

Another strategy to be considered is reuse packaging. Should the company design and promote a package that can serve other purposes after the original contents have been consumed? Glasses containing coffee can later be used to serve fruit juice. Baby food jars, make great containers for small parts like nuts, bolts and screws. Reuse packaging also should stimulate repeat purchases as the consumer attempts to acquire a matching set of containers.

Multiple Packaging

For many years there has been a trend toward multiple packaging or the practice of placing sevral units in one container. Dehydrated soups' custard packs, golf ball, building hardware, chocolate, towels, and countless other products are packaged in multiple units. Test after test has proved that multiple packaging increases total sale of a product.

9.9 COST EFFECTIVENESS OF PACKAGING

While packaging is essential for a product it should not become an unnecessary evil. It is important to study and compare the costs involved in packaging against the benefits generated additionally. The various alternatives to be considered are:

i) Whether to have an ordinary packaging or an expensive one;

ii) Whether to package goods oneself or give an outside contract;.

iii) Whether to purchase packaging machinery or package manually, in certain cases;

iv) Whether the benefits available to the consumer through the packaging are really tangible or not i.e., whether or not they would be ready to pay additionally for the benefits;

v) According to the marginal curve there exists an inverse relationship between packaging costs and increase in sales. After certain point it is no longer beneficial to incur more packaging costs. It is necessary for the marketer to determine this limit

9.10.1 Legal aspects of packaging

The labeling laws require safe packaging and warning labels on hazardous materials such as poison and other substances. A package must necessarily give complete information about:

1). Date of manufacture

2). Date of expiry

3). Guarantee period

4). Batch No.

5). Volume/Weight of contents

6). Name of manufacturer

7). Instructions how to open it

8). Trademark of manufacturer

9). Price as the case may be.

For certain edible products a standard size of package is to be used. In India food products are often compared to AGMARK standards and if a product conforms to one it should be notified on the package. Other products are compared to IS[standards which should again be mentioned on the package.

It is illegal to copy the packaging design of the competitor but there are several instances of similar looking designs of a successful product being copied by competitors. The recent HTA v/s LINTAS war for Cihthol (Lime) v/s Liril clearly brings out packaging wars between competitions. Both, Cinthol (Lime) Soap and Liril (Lime) Soap have been introduced in similar light green wrappers with identical pictures of lime. The case about who has copied whom has not yet been solved.

9.10.2 Social Aspects of Packaging

Notes

1) In an economy like ours which requires every rupee for its development unnecessary packaging to attract consumers can be considered a waste of resources. Fancy expensive packaging not only raises the cost of the product to the consumer but also of times the cost of the package is higher than the cost of the contents. Packaging should be limited to functions of protection and holding rather than a tool for advertisement. Another stream of thought, however, is that ordinary packaging would necessarily diminish the edge of competitiveness and the drive for innovation would no longer exist. Thus, packaging up to a certain limit can be used as a marketing tool but its excessive use would be self-defeating.

2) Pollution : Disposal of consumer packaged goods after they have been utilised results in piling up of solid waste. This creates unnecessary pollution in the environment resulting in ecological imbalance. Certain type of packaging material *is* difficult to destroy and *is* not reusable also. In the present day situation when each drop of water is precious and every space of land is important it is a crime to pile up unnecessary scrap of tins, cans and boxes.

Some socio-economic criticisms of packaging are

- Packaging depletes our natural resources. This criticism is offset to some extent if packagers increasingly make use of recycled materials. Another offsetting point that effective packaging reduces spoilage (another form of resource waste).
- Packaging is excessively expensive. Cosmetic packaging is often cited as an example here. But even in seemingly simple packaging-tinned fruit for example-half the production cost goes for the container. On the other hand, effective packaging reduces transportation costs and losses from product spoilage and spillage.
- Health hazards occur from some forms of plastic packaging and some aerosol cans. Government regulations have banned the use of several of these suspect packaging materials.
- Packaging is deceptive. Government regulation plus improvement in business practices regarding packaging have reduced the intensity of this criticism, although it still is heard on occasion.

9.11 LABELING – FUNCTIONS

Every physical product must carry a label, which may be a simple tag attached to the product or an elaborately designed graphic that is part of the package. Labels perform several functions. First, the label *identifies* the product or brand—for instance, the name

Sunkist stamped on oranges. The label might also *grade* the product, the way canned peaches are grade labeled A, B, and C.

The label might *describe* the product: who made it, where it was made, when it was made, what it contains, how it is to be used, and how to use it safely. Finally, the label might *promote* the product through attractive graphics.

Legal concerns about labels and packaging stretch back to the early 1900s and continue today. The Food and Drug Administration (FDA) recently took action against the potentially misleading use of such descriptions as "light," "high fiber," and "low fat." Meanwhile, consumerists are lobbying for additional labeling laws to require *open dating* (to describe product freshness), *unit pricing* (to state the product cost in standard measurement units), *grade labeling* (to rate the quality level), and *percentage labeling* (to show the percentage of each important ingredient).

Notes

Some tangible products that incorporate packaging and labels also involve some service component, such as delivery or installation. Therefore, marketers must be skillful not only in managing product lines and brands, but also in designing and managing services.

Check your progress

7. What is label & wha are their contains ?

Labelling Mechanisms:

The label may be a simple tag attached to the product or an elaborately designed graphic which is part of the package. The label might carry only the brand name or a great deal of information. Even if the seller prefers a simple label, the law may require additional information.

Labels perform several functions. At the very least; the label identifies the product or brand. The label might also grade the product. The label might describe several things about the product: who made it where it was made, when it was made, what it contains, how it is to be used, and how to use it safely. Finally the label might promote the product through its attractive graphics. Some writers distinguish between identification label, grade labels, descriptive label, and promotional labels. Companies should make sure that their label contain all the required information before launching new products.

Labels are broadly of two types. Internal labels are those that used in the course of manufacture and testing and External labels are those which appear on or accompany the final products as they reach the consumer. In both types of labels the two factors to be considered are:

Notes

- The printed matter on the label which constitutes the copy.
- The presentation of the copy of label design.

With internal labels the adequacy and accuracy of the contents take precedence over the aesthetics of the label. .

In fact, it is a punishable offence to import, manufacture, sell or distribute any product which is misbranded. A product is deemed to be misbranded if *inter al^{g}a.*

- it is not labelled in the prescribed manner or
- Its label or container or anything accompanying the product bears any statement, design or device, which makes any false claim for the drug or is misleading in any particular manner.

Labelling of finished products, demands an equally high degree of work discipline with rigorous control systems, as any other area of product production. Insufficient attention and inadequate precautions in labelling products have resulted in mix-ups, serious mishaps and product recalls.

General Requirements

One of the first stipulation of labelling rules states that, the mass of information to be given, must appear on the innermost container of a product and on every other covering in which the container is packed. This information must be either printed or written in indelible ink and appear in a conspicuous manner for drugs sold or distributed in the country.

Since trade names are permitted for almost all products; the symbol R enclosed in a circle, must be printed on the right hand top corner of the brand name to indicate that the name is a registered one; the legend R-Registered Trade Mark, must also be printed at the bottom of the print are of the label.

The statement of the net content in terms of weight, measure, volume, number of units of contents; number of units of activity is expected to be correct.

The name of the manufacturer and the address of the premises where the product has been manufactured, must also be carried on the label.

Torage Precautions

Whatever storage conditions are necessary for preserving the product, such as protection from light, prevention of freezing of certain products, should be clearly

indicated in a prominent place, so that it does not escape the attention of retailer or consumers. For example, in the case of a carton, a flap or principal display panel would be the ideal place for printing these details.

Notes

Label Change Control

Revisions in the content of labels are usually made in response to regulatory changes and very rarely due to changes in company policy.

Tiffany & co 1830s is associated with its trademarked Blue box and Blue book

A well documented change control system is essential for proper identification of labels, which in turn, will facilitate the removal of obsolete labels from stock and ensure the use of only current version. Such revisions can be well taken care of by an alpha -numeric loading system for all printed packing materials. Approved changes to label copy must be indicated on the label itself, by either altering the code number of the label each time a provision is made or, by adding a consecutively numbered prefix or suffix to the code number.

Better alternative would be the bar coding system which is compatible with computers and serves the purpose of not only identification, but also of stock control, distribution of finished product, billing and accounting. With bar code readers, the wrong labels can be detected and picked off the packing line. .

After the label copy has been drafted in strict adherence to labelling rules, the next problem is how to fit all the copy matter in the space available and at the same time, make the label as attractive as possible.

Another difficulty is how to provide space for information about batch and price details. That can be given only just prior to packing the product or while packing. This information is usually overprinted on the labels. The positioning of the space for these details must be predecided while designing the label layout.

Yet another critical requirement is to suitably differentiate between apparently identical labels -a likely event when house colours and designs are adopted to prevent mix-ups and errors in labelling.

Other aspects of label design are the quality of paper or board used, the colour shades, copy panels, print types, illustrations if any, and the overall aesthetic presentation.

Internal labels used on materials, equipment, manufacturing vessels, and bulk product containers, at various stages of manufacture, also need to be properly designed and handled.

Notes

The Fiat Punto was launched in India replacea its previous brand Fiat Uno.

It is a basic requirement that no material intended for the manufacture and packing of a drug or drug product, is received without a label. The label should not only indicate the identity of the article, but also carry any statutory label details of the raw material as - provided by the manufacturer. Besides, current good manufacturing practices (GMP) requires that, the quality status of each and every material lying in the stores, must be known at all times.

The usual practice is to examine the physical condition of the supply including the labels on all containers A decision is then taken, whether or not to accept the consignment for subsequent quality control stages of sampling, testing etc. If the supply is to be taken into the warehouse, it is necessary to isolate it from other materials and, to the extent possible, segregate it in terms of batch numbers, which are given by the manufacturer. Thereafter, every batch of the material must be labelled to indicate that the supply is "TO BE SAMPLED" or is "UNDER TEST"

The "UNDER TEST" label should be designed to indicate its nature, have a distinctive identification code and colour or, colour brand (optional). The label must normally provide for the entry of the following details:

- The company name or logo
- Name of the material
- A unique identifying number
- Container number (assigned by the sampler, as a number among the total number of containers).
- Samples by and on
- Batch number

SUMMARY

Many physical products have to be packaged and labeled. Well-designed packages create convenience value for customers and promotional value for producers. Marketers start by developing a packaging concept and then testing it functionally and psychologically to make sure it achieves its desired objectives and is compatible with public policy and

environmental concerns. Physical products also require labeling for identification and possible grading, description, and product promotion.

Dating back to primitive times when it was used primarily as a protective device, packaging has evolved as the fifth P of marketing. The unit discusses the basic concept of packaging, the functions and strategies of packaging and as an excellent tool for product identification and product differentiations. Besides, the legal and social aspects of packaging have also been discussed.

As labelling and packaging go hand in hand, the importance of labelling both to the seller and the buyer has been covered for better promotion of a product.

9.12 Answers to Check your progress question:

1 protect the product.
2 creatitivity & intiution.
3 Low cost fishes which is exporting.
4 cotton.
5 metal , plastic
6 pepsodent tooth paste.
7 Label gives a small description of the product, it contains quantity of product, date of manufacture of product etc.

SELF ASSESSMENT QUESTIONS

1. Discuss the importance of packaging as a tool for product differentiation and market cultivation.

2. Packaging has been. criticised as being expensive, giving no additional value and often deceptive. How would you justify marketers use of packaging.

3. Discuss the importance of labelling both from the sellers as well as the buyers point of view.

4. Packaging is considered as the 5P of marketing mix. What are its implications on the PLC. Discuss

FURTHER READINGS

1. Robert G. *Cooper, Winning at New Products,* Kogan, Page 120; Pentoville Road, London, 1989.

2. G.L. Urben and J.R. Hauge, *Design and Markeiing ofNety Products,*. Englewood Cliff, J.N. Prentice Hall, 1980.

3. Philip Kotler, *Marketing management*, 11th edition 2002-PHI-New Delhi.

UNIT 10

DISTRIBUTION CHANNEL MANAGEMENT

Notes

Structure

10.1 Introduction

10.2 Channel funtions and flow

10.3 Channel Levels

10.4 Analysing Customer's Desired Output Level

10.5 Identifying Major Channel Alternatives

10.6 Type of Intermediaries

10.7 Terms and Responsibilities of Channel Members

10.8 Evaluative Channel Alternative

10.9 Selecting Channel Members

10.10 Training Channel Members

10.11Motivating Channel Members

10.12 Evaluating Channel Members

10.13 Modifying Channel Arrangement

10.14 Summary

10.15 Answers to Check your progress questions

10.16 Exercises and Questions

10.17 Further Readings

Check your progress

1. Distribution channel means, ____________

LEARNING OBJECTIVES

. To know the Channel function and flow

. To identify different type of Intermediaries

. To understand terms and responsiblities of channel members

10.1 INTRODUCTION

Decisions about marketing channels, which help producers, deliver goods and services to their target markets, are among the most critical facing management— because the channels that are chosen intimately affect all of the other marketing decisions. For

example, the company's pricing depends on whether it uses a direct Web presence; discount merchants, or high-quality boutiques. Also, the firm's sales force and advertising decisions depend on how much training and motivation its dealers need.

Another reason why these decisions are so critical is that they involve relatively long-term commitments to other firms. When an automaker signs up independent dealers to sell its vehicles, the automaker cannot simply buy them out the next day and replace them with company-owned outlets. As Corey observed, "A distribution system . . . is a key external resource. Normally it takes years to build, and it is not easily changed. It ranks in importance with key internal resources such as manufacturing, research, engineering, and field sales personnel and facilities. It represents a significant corporate commitment to large numbers of independent companies whose business is distribution—and to the particular markets they serve. It represents, as well, a commitment to a set of policies and practices that constitute the basic fabric on which is woven an extensive set of long-term relationships."1

Check your progress

2. Main factors of defining distribution channels is, ________

Technology is, of course, having a profound effect on channel decisions and management. In an era when buyers and sellers alike seek speedier sales transactions, marketing-channel technologies (including automated inventory and storage systems and the Internet are adding value by expediting the flow of physical goods, ownership, payment, information, and promotion. We explore the selection and management of marketing channels from the viewpoint of producers of goods and services vices from those who need or want them

10.2 CHANNEL FUNCTIONS AND FLOW

1. They gather information about potential and current customers, competitors, and other actors and forces in the marketing environment.
2. They develop and disseminate persuasive communications to stimulate purchasing.
3. They reach agreement on price and other terms so that transfer of ownership or possession can be effected.
4. They place orders with manufacturers.
5. They acquire the funds to finance inventories at different levels in the marketing channel.
6. They assume risks connected with carrying out channel work.
7. They provide for the successive storage and movement of physical products.
8. They provide for buyers' payment of their bills through banks and other financial institutions.

9. They oversee actual transfer of ownership from one organization or person to another.

Notes

Sellotape was first made in England in 1937 by Colin Kininmonth and George Gray

Some functions (physical, title, promotion) constitute a *forward flow* of activity from the company to the customer; other functions (ordering and payment) constitute a *backward flow* from customers to the company. Still others (information, negotiation, finance, and risk taking) occur in both directions. Five flows are illustrated in Figure 5-2 for the marketing of forklift trucks. If these flows were superimposed in one diagram, the tremendous complexity of even simple marketing channels would be apparent.

The question is not *whether* these channel functions need to be performed—they must be—but rather *who* is to perform them. All channel functions have three things in common: They use up scarce resources; they can often be performed better through specialization; and they can be shifted among channel members. If a manufacturer shifts some functions to intermediaries, its costs and prices go down, but the intermediaries will charge more to cover their increased responsibilities. Still, if the intermediaries are more efficient than the manufacturer, the prices to consumers should be lower. If consumers perform some functions themselves, they should enjoy still lower prices. In general, changes in channel institutions tend to reflect the discovery of more efficient ways to combine or separate the economic functions that provide assortments of products to target customers.

Check your progress

3. In ________ stage of NPD , the distribution chan nels are defined.

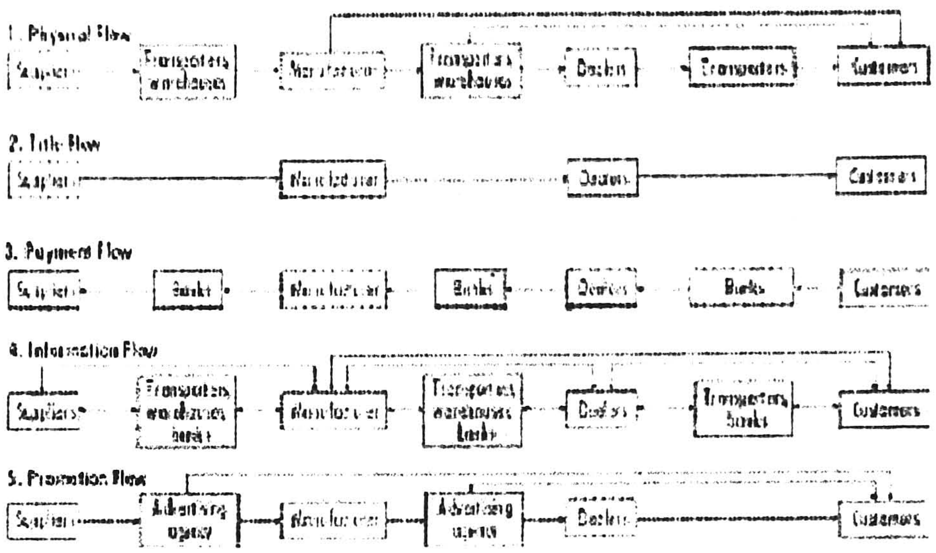


Fig 10.1 Channel flow

10.3 CHANNEL LEVELS

The producer and the final customer are part of every channel. We will use the number of intermediary levels to designate the length of a channel. Figure 5-3a illustrates several consumer-goods marketing channels of different lengths, while Figure 5-3b illustrates industrial marketing channels.

A ***zero-level channel*** (also called a *direct-marketing channel*) consists of a manufacturer selling directly to the final customer through Internet selling, door-to-door sales, home parties, mail order, telemarketing, TV selling, manufacturer-owned stores, and other methods.

A ***one-level channel*** contains one selling intermediary, such as a retailer.

A ***two-level channel*** contains two intermediaries;

A ***three-level channel*** contains three intermediaries. From the producer's point of view, obtaining information about end users and exercising control becomes more difficult as the number of channel levels increases.

Channels normally describe a forward movement of products. One can also talk about *backward channels*, which recycle trash and old or obsolete products no longer used by customers. Several intermediaries play a role in backward channels, including manufacturers' redemption centers, community groups, and traditional intermediaries such as soft-drink intermediaries, trash-collection specialists, recycling centers, trash-recycling brokers, and central-processing warehousing.

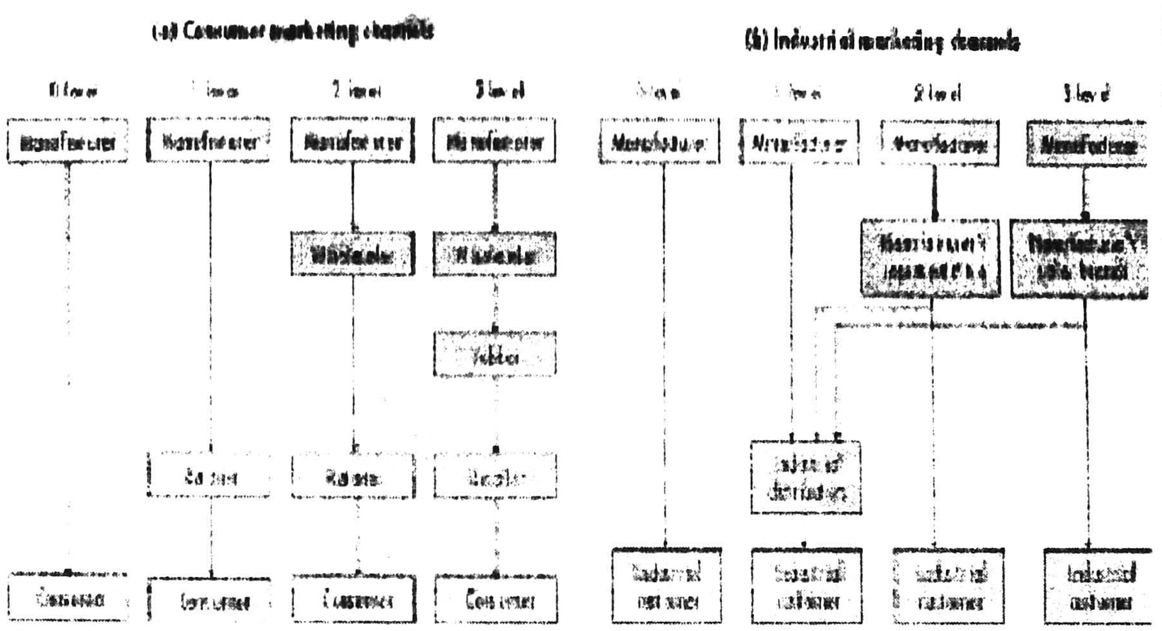


Fig 10.2 Channel Levels

10.4 ANALYZING CUSTOMERS' DESIRED OUTPUT LEVELS

Because the point of a marketing channel is to make a product available to customers, the marketer must understand what its target customers actually want. Channels produce five service outputs:

- *Lot size:* The number of units the channel permits a typical customer to purchase on one occasion. In buying cars for its fleet, Hertz prefers a channel from which it can buy a large lot size; a household wants a channel that permits buying a lot size of one.

Notes

2. *Waiting time:* The average time customers of that channel wait for receipt of the goods. Customers normally prefer fast delivery channels.

3. *Spatial convenience:* The degree to which the marketing channel makes it easy for customers to purchase the product. Chevrolet, for example, offers greater spatial convenience than Cadillac, because there are more Chevrolet dealers.

4. *Product variety:* The assortment breadth provided by the channel. Normally, customers prefer a greater assortment, which increases the chance of finding what they need. Relentless expansion of product variety is the special edge that has helped Amazon.com maintains its lead in Internet retailing.

5. *Service backup:* The add-on services (credit, delivery, installation, repairs) provided by the channel. The greater the service backup, the greater the work provided by the channel.

Smart marketers recognize that providing greater service outputs means increased channel costs and higher prices for customers, just as a lower level means lower costs and prices. The success of discount stores and Web sites indicates that many consumers will accept lower outputs if they can save money.

10.5 IDENTIFYING MAJOR CHANNEL ALTERNATIVES

After a firm has examined its customers' desired service outputs and has set channel objectives, the next step is to identify channel alternatives. These are described by (1) the types of available intermediaries, (2) the number of intermediaries needed, and (3) the terms and responsibilities of each channel member.

10.6 TYPES OF INTERMEDIARIES

Intermediaries known as *merchants*—such as wholesalers and retailers—buy, take title to, and resell the merchandise. *Agents*—brokers, manufacturers' representatives and sales agents—search for customers and may negotiate on the producer's behalf but do not take title to the goods. *Facilitators*—transportation companies, independent warehouses, banks, and advertising agencies—assist in the distribution process but neither take title to goods nor negotiate purchases or sales. The most successful companies search for innovative marketing channels. The Conn Organ Company, for example, sells organs through merchants such as department and discount stores, drawing more attention than it ever enjoyed in small music stores. Similarly, Ohio-based Provident Bank reaches new mortgage customers by selling through the lending tree. com Web site, which acts as a facilitator.

Number of Intermediaries

In deciding how many intermediaries to use, successful companies use one of three strategies:

1. *Exclusive distribution* means severely limiting the number of intermediaries. Firms such as automakers use this approach when they want to maintain control over the service level and service outputs offered by the resellers. Often it involves exclusive dealing arrangements, in which the resellers agree not to carry competing brands.

2. *Selective distribution* involves the use of more than a few but less than all of the intermediaries who are willing to carry a particular product. In this way, the producer avoids dissipating its efforts over too many outlets, and it gains adequate market coverage with more control and less cost than intensive distribution. Nike, for example, sells its athletic shoes and apparel through seven types of outlets:

(1) Specialized sports stores, which carry a special line of athletic shoes;

(2) General sporting goods stores, which carry a broad range of styles;

(3) Department stores, which carry only the newest styles;

(4) Mass-merchandise stores, which focus on discounted styles;

(5) Nike town stores, which feature the complete line;

(6) Factory outlet stores, which stock mostly seconds and closeouts, and

(7) The popular Fogdog Sports site (www.fogdog.com), its exclusive Web retailer.

3. *Intensive distribution* consists of the manufacturer placing the goods or services in as many outlets as possible. This strategy is generally used for items such as tobacco products, soap, snack foods, and gum, products for which the consumer requires a great deal of location convenience.

Notes

Air Canada was the first to make all its flights 100 per cent smoking free from 1990 onwards

Check your progress

4. How to reduce the cost of the distribution channel ?

10.7 TERMS AND RESPONSIBILITIES OF CHANNEL MEMBERS

The producer must also determine the rights and responsibilities of participating members when considering channel alternatives. From an ethical perspective, each channel member must be treated respectfully and given the opportunity to be profitable. Other key rights and responsibilities include:

Price policy. The producer establishes a price list and a schedule of discounts and allowances that intermediaries see as equitable and sufficient.

Conditions of sale. The producer sets payment terms and guarantees for each sale. Most producers grant cash discounts to distributors for early payment; they may also offer guarantees against defective merchandise or price declines.

Notes

Brand Asset Valuator (BAV) was introduced by Young and Rubycam. It measures the value of a brand aling four dimensions: Diffrentiation, Relevance, Esteem and Knowledge

Check your progress

5. What is the reflection due to lengthening a dis tribution channel?

Territorial rights. The producer defines the distributors' territories and the terms under which it will enfranchise other distributors. Distributors normally expect to receive full credit for all sales in their territory, whether or not they did the selling.

Mutual services and responsibilities. The producer must carefully lay out each party's duties, especially in franchised and exclusive-agency channels. McDonald's provides franchisees with a building, promotional support, a record-keeping system, training, and technical assistance. In turn, its franchisees are expected to satisfy company standards regarding physical facilities, cooperate with new promotional programs, and buy supplies from specified vendors.

10.8 EVALUATING THE MAJOR ALTERNATIVES

Once the company has identified its major channel alternatives, it must evaluate each alternative against appropriate economic, control, and adaptive criteria.

Economic criteria. Each channel alternative will produce a different level of sales and costs, so producers must estimate the fixed and variable costs of selling different volumes through each channel. For example, in comparing a company sales force to a manufacturer's sales agency, the producer would estimate the variable cost of commissions paid to representatives and the fixed cost of rent payments for a sales office. By comparing its costs at different sales levels, the company can determine which alternative appears to be the most profitable.

Control criteria. Producers must consider how much channel control they require, since they will have less control over members they do not own, such as outside sales agencies. In seeking to maximize profits, outside agents may concentrate on customers who buy the most, but not necessarily of the producer's goods. Furthermore, agents might not master the details of every product they carry.

Adaptive criteria. To develop a channel, the members must make some mutual commitments for a specified period of time. Yet these commitments invariably lead to a decrease in the producer's ability to respond to a changing marketplace. In a volatile or uncertain environment, smart producers seek out channel structures and policies that provide high adaptability.

10.9 SELECTING CHANNEL MEMBERS

During the selection process, producers should determine what characteristics distinguish the better intermediaries. They will want to evaluate number of years in business, other lines carried, growth and profit record, solvency, cooperativeness,

and reputation. If the intermediaries are sales agents, producers will want to evaluate the number and character of other lines carried and the size and quality of the sales force. If the intermediaries are store or Internet retailers that want exclusive distribution, the producer will want to evaluate locations, brand strength, future growth potential, and type of clientele.

Selection of channel participants is actually a two-way process: Just as producers select their channel members, the intermediaries also select their producer partners. Yet producers vary in their ability to attract qualified intermediaries. Toyota was able to attract many new dealers when it first introduced its Lexus line, but Polaroid initially had to sell through mass-merchandising outlets when photographic-equipment stores would not carry its cameras.

Selection can be a lengthy process. Consider the experience of Japan's Epson Corporation. A leading manufacturer of computer printers, Epson decided to add computers to its product line but chose to recruit new distributors rather than sell through its existing distributors. The firm hired a recruiting firm to find candidates who (1) had distribution experience with major appliances, (2) were willing and able to set up their own distributorships, (3) would accept Epson's financial arrangements, and (4) would handle only Epson equipment, although they could stock other companies' software. After the recruiting firm went to great effort to find qualified candidates, Epson terminated its existing distributors and began selling through the new channel members. Despite this time-consuming, detailed selection process, Epson never succeeded as a computer manufacturer.

10.10 TRAINING CHANNEL MEMBERS

Companies need to plan and implement careful training programs for their distributors and dealers because the intermediaries will be viewed as the company by end\ users. Microsoft, for example, requires third-party service engineers who work with its software applications to complete a number of courses and take certification exams. Those who pass are formally recognized as Microsoft Certified Professionals, and they can use this designation to promote business.

As another example, Ford Motor Company beams training programs and technical information via its satellite-based Ford star Network to more than 6,000 dealer sites. Service engineers at each dealership sit at a conference table and view a monitor on which an instructor explains procedures such as repairing onboard electronics and then answers questions. Such training initiatives keep employees updated on the latest product specifications and service requirements.

10.11 MOTIVATING CHANNEL MEMBERS

Notes

The most successful firms view their channel members in the same way they view their end users. This means determining their intermediaries' needs and then tailoring the channel positioning to provide superior value to these intermediaries. To improve intermediaries' performance, the company should provide training, market research, and other capability-building programs. And the company must constantly reinforce that its intermediaries are partners in the joint effort to satisfy customers. More sophisticated companies go beyond merely gaining intermediaries' cooperation and instead try to forge a long-term *partnership* with distributors. The manufacturer communicates clearly what it wants from its distributors in the way of market coverage, inventory levels, marketing development, account solicitation, technical advice and services, and marketing information. The manufacturer then seeks distributor agreement with these policies and may introduce a compensation plan or other rewards for adhering to the policies. For example, Dayco Corporation, a maker of engineered plastics and rubber products, strengthens channel partnerships by running an annual week-long retreat with 20 distributors' executives and 20 Dayco executives.

Still, too many manufacturers think of their distributors and dealers as customers rather than as working partners. Up to now, we have treated manufacturers and distributors as separate organizations. But many manufacturers are distributors of related products made by other manufacturers, and some distributors also own or contract for the manufacture of in-house brands. JC Penney sells national brands of jeans by manufacturers such as Levi Strauss in addition to a line of jeans under the Original Arizona Jeans company private label. This situation, which is common in the jeans industry and in many others, complicates the process of selecting and motivating channel members.

10.12 EVALUATING CHANNEL MEMBERS

Producers must periodically evaluate intermediaries' performance against such standards as sales-quota attainment, average inventory levels, customer delivery time, treatment of damaged and lost goods, and cooperation in promotional and training programs.

A producer will occasionally discover that it is paying too much to particular intermediaries for what they are actually doing. As one example, a manufacturer that was compensating a distributor for holding inventories found that the inventories were actually held in a public warehouse at the manufacturer's expense. Producers should therefore set up functional discounts in which they pay specified amounts for the

trade channel's performance of each agreed-upon service. Underperformers need to be counseled, retrained, re-motivated, or terminated.

10.13 MODIFYING CHANNEL ARRANGEMENTS

Notes

C K Prahalad's bottom of the Pyramid theory inspired Godrej to launch the ChotuKool refridgerator for rural India

Channel arrangements must be reviewed periodically and modified when distribution is not working as planned, consumer buying patterns change, the market expands, new competition arises, innovative distribution channels emerge, or the product moves into later stages in the product life cycle.

Rarely will a marketing channel remain effective over the entire product life cycle. Early buyers might be willing to pay for high value-added channels, but later buyers will switch to lower-cost channels. This was the pattern for many products, including small office copiers, which were first sold by manufacturers' direct sales forces, later through office-equipment dealers, still later through mass merchandisers, and now by mail-order firms and Internet marketers.

Miland Lele developed the grid in Figure 5-4 to show how marketing channels have changed for PCs and designer apparel at different stages in the product life cycle. As the grid indicates, new products in the introductory stage of the life cycle enter the market through specialist channels that attract early adopters. As interest grows, higher-volume channels appear (dedicated chains, department stores), offering some services, but not as many as the previous channels. In the maturity stage, where growth is slowing, some competitors move their product into lower-cost channels (mass merchandisers). In decline, even lower-cost channels emerge (mail-order, discount Web sites, off-price discounters)

10.14 SUMMARY

Most producers do not sell their goods directly to final users. Between producers and final users stands one or more marketing channels, a set of marketing intermediaries performing a variety of functions. Companies use intermediaries when they lack the financial resources to carry out direct marketing, when direct marketing is not feasible, and when they can earn more by going through intermediaries. The use of intermediaries largely boils down to their superior efficiency in making goods widely available and accessible to target markets. The most important functions performed by intermediaries are gathering information, handling promotion, handling negotiation, placing orders, arranging financing, taking risks, and facilitating physical possession, payment, and title.

Notes

Manufacturers have many alternatives for reaching a market. They can sell direct through a zero-level channel or use one-, two-, or three-level channels. Deciding which type(s) of channel to use calls for analyzing customer needs, establishing channel objectives, and identifying and evaluating the major alternatives. The company must also determine whether to distribute its product exclusively, selectively, or intensively, and it must clearly spell out the terms and responsibilities of each channel member.

Effective channel management calls for selecting intermediaries, then training and motivating them. The goal is to build a long-term partnership that will be profitable for all channel members. Individual members must be evaluated periodically against pre-established standards, and overall channel arrangements may need to be modified over time. Three of the most important trends in channel dynamics are the growth of vertical marketing systems, horizontal marketing systems, and multichannel marketing systems.

All marketing channels have the potential for conflict and competition resulting from such sources as goal incompatibility, poorly defined roles and rights, perceptual differences, and interdependent relationships. Companies can manage conflict by striving for super ordinate goals, exchanging people among two or more channel levels, co-opting the support of leaders in different parts of the channel, and through diplomacy, mediation, or arbitration to resolve chronic or acute conflict. Channel arrangements are up to the company, but there are certain legal and ethical issues to be considered with regard to practices such as exclusive dealing or territories, tying agreements, and dealers' rights.

10.15 Answers to Check your progress questions:

1 the product travelling from the producer to end-user.
2 place of target customers, risk connected with carrying, cost connected with carrying.
3 commercialization
4 Higher volume of distribution , Mass merchandise
5 Increasing cost per unit of the product.

10.16 EXERCISES AND QUESTIONS

1. Discuss the distribution channel flow and functions?
2. Explain the distribution channel level?
3. How do you select, train and motivate channel members?

10.17 FUTHER READINGS

1. Marketing management: Global perspective Indian context, VS Ramasamy and S Namakumari, 4th Edison, Macmillan publication India ltd, 2009.